EMERGENCY MEDICAL SERVICES LEVY FINANCIAL REVIEW

King County

Presented to
the Metropolitan King County Council
General Government and Labor Relations Committee
by the
County Auditor's Office
and
Miller & Miller, P.S.

Report No. 2009-02
September 15, 2009

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King County

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MEMORANDUM

DATE: September 15, 2009

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor cb

SUBJECT: Emergency Medical Services (EMS) Levy Financial Review

The attached EMS levy financial review responds to Ordinance 15862 requesting a review and comparison of the county programs funded by the EMS levy, including the annual revenues, expenditures, and reserves, to those identified in the council-adopted financial plan. The report also assesses the reasonableness of the financial plan and model in projecting annual costs, and the adequacy of established internal controls to properly manage the financial and contractual aspects of levy-funded Advanced Life Support (ALS) services.

Based on the results of the financial review, we concluded that:

- Implementation of the 2008 EMS levy was consistent with the financial plan and model adopted by the King County Council and approved by county voters, and was reasonable in projecting annual budgets and operating costs during the first year of the EMS levy implementation. The assumptions, inflationary factors, reserves, and process for updating the EMS financial plan and model variables in 2009 were also adequate.

- The EMS Division managed the existing reserves and contingency funds, including the Millage Reduction Reserve, in accordance with the EMS levy and financial plan. The EMS Division transferred approximately $4.5 million in excess revenues to the Millage Reduction Reserve at the end of 2008.

- Due to unanticipated economic conditions, declining levy revenues, and unique program costs not considered when the EMS levy was developed, modification of the EMS levy financial plan and model will be required to access reserves or otherwise address declining property tax revenues. The council will be asked to reconsider the use of selected reserves and designated funds for 2010 and beyond.

- Policy guidance and legal review will be necessary to address issues identified during the review related to the full-funding of ALS services and the allowable uses of the EMS levy funds. Issues were also identified regarding the clarity of EMS policies and inconsistencies with various levy-related documents and ALS contract provisions along with recommendations to improve the transparency of EMS policies and actual costs incurred to run the program.

- The EMS Division and ALS providers substantially complied with the contractual requirements for implementing the ALS services. Sufficient processes and controls were established by the EMS Division and ALS providers to properly manage the financial and contractual aspects of the EMS levy program. Some ALS providers, however, have unique and future service expenses that were not addressed by the standard EMS unit cost methodology. Greater transparency and full disclosure of these costs is needed to effectively manage the EMS program.

The County Executive generally concurs with the EMS levy findings and recommendations, and plans to seek appropriate policy and legal clarifications on the levy issues identified in our report. In addition, the County Executive comments on his intent to request council approval to change the frequency of future EMS levy financial audits or reviews to a biennial rather than annual cycle.

Given the overall favorable findings in our EMS levy financial review and projected levy revenue reductions, we agree that annual audits may not be necessary for the remaining six-year levy period. The scope of future reviews could also be more limited than originally anticipated in the council ordinance adopting the EMS financial plan. We suggest the council consider whether or not an annual audit is required and the scope of any review during the adoption of the auditor's office annual work program. This approach will ensure that we can monitor the EMS Division's progress in implementing the report recommendations and address any future issues that may arise while minimizing EMS levy expenses.

The King County Auditor's Office sincerely appreciates the professionalism of our independent consultant, Steve Miller of Miller & Miller, P.S., and the cooperation received from the management and staff of the Emergency Medical Services Division and Office of Management and Budget.

CB: SB: lo

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KING COUNTY

Emergency Medical Services Levy Financial Review

Report on EMS Levy Financial Review

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Executive Summary of EMS Levy Financial Review

Introduction

King County's Medic One/Emergency Medical Services (EMS) system provides life-saving medical assistance to the 1.8 million residents throughout the county. We are pleased to present this report on the financial review of the Emergency Medical Services (EMS) Levy, mandated by the King County Council with the adoption of Ordinance 15862. The King County Auditor's Office (KCAO) engaged Miller & Miller, P.S. to conduct this project.

This review focuses on the implementation of the EMS levy during 2008, the first year of the 2008 to 2013 levy. The primary purposes of the review are to determine whether the King County EMS Division and its Advanced Life Support (ALS) service providers are effectively managing the financial aspects of the EMS program; and whether the EMS financial plan is reasonable, transparent and provides for adequate funding and financial stewardship. The fundamental objectives of this project are to:

1. Assess the ALS and Basic Life Support (BLS) financial models and determine whether: a) the model assumptions, inflationary factors, reserves, and other variables represent an accurate, complete and reasonable set of criteria in projecting yearly budgeted costs during the levy period, and b) the process to annually update EMS financial model variables is adequate. We also assess the impact of the current economic situation on EMS funding and identify opportunities for potential millage reductions for the duration of the levy.

2. Review compliance with 2008 ALS service contract requirements, including the: a) Compensation and Method of Payment; b) Internal Control and Accounting System; and c) Equipment Purchases, Maintenance, and Ownership. This includes an internal control review of the King County Emergency Medical Services (EMS) program, and an evaluation of the effectiveness of the existing controls for five (5) of the six (6) ALS providers and the performance of substantive tests. The five ALS providers are King County Medic One and the Bellevue, Redmond, Shoreline, and Vashon Island Fire Departments.

These objectives were satisfied by assessing the current practices, testing for compliance with established policies and procedures, testing the financial model's information, and evaluating the assumptions used in the financial plan. This report summarizes the issues identified and the resulting recommendations based on these activities.

Conclusions, Findings, and Recommendations

Overall Conclusions

We found that the assumptions, inflationary factors, reserves, and other variables in the 2008 EMS Levy Fund financial plan and model were consistent with those adopted by the King County Council and approved by County voters. They were also reasonable in projecting annual budgets and operating costs during the first year of the EMS levy implementation. The process for updating the EMS financial plan and model variables was also adequate, and the existing reserves and contingency funds, including the Millage Reduction Reserve, were generally managed in accordance with the EMS levy and financial plan.

Due to unanticipated economic conditions (i.e., projected deflation) and unique program costs not considered when the EMS levy was developed, the financial plan's economic assumptions and restrictions on reserves and contingency fund balances pose uncertainty from 2010 to 2013. Modification of the current EMS levy financial plan and model will be required to access reserves or otherwise address declining property tax revenues.

During the review of the EMS levy financial plan and model, we also identified a number of issues involving the clarity of EMS policies and inconsistencies with the levy-related documents and ALS contract provisions. Issues regarding the sufficiency of transparency of EMS policies and the actual costs to run the program were also noted. Policy guidance will be necessary to address these and other issues in implementing the financial plan and model for the duration of the six-year levy period.

Finally, we determined that the EMS Division and ALS providers substantially complied with the contractual requirements for implementing the ALS Services. Sufficient processes and controls were established by the EMS Division and ALS providers to properly manage the financial and contractual aspects of the EMS levy program. Some ALS providers, however, incurred unique and future operating expenses that were not addressed by the standard EMS unit cost methodology. Greater transparency and full disclosure of these costs is needed to effectively manage the EMS program.

EMS Levy Financial Plan Summary of Findings

1. The structure of the EMS levy financial plan is sufficient for proper financial administration and management of the EMS levy program. The assumptions, inflationary factors, reserves, and other variables in the financial plan were consistent with those adopted by the County Council and approved by County voters, and reasonable in projecting annual budgets and operating costs during the first year of the EMS levy implementation.

2. The process used to update the financial plan in 2008 incorporated appropriate economic assumptions. The current economic assumptions used to project future costs, including the reserves established to manage the risk of inflationary impacts, were also sufficient to provide stable funding through 2009. Modification of the current EMS levy financial plan, however, will be required between 2010 and 2013 due to unanticipated economic conditions, particularly the impacts of projected deflation, and unique ALS program costs such as unfunded post-employment benefits that were not considered when the 2008 to 2013 financial plan was developed.

3. The EMS standard unit cost methodology is an appropriate tool for allocating normal costs to individual ALS service providers, but it does not make sufficient provisions to address unique, future, or higher than anticipated costs. In some cases, the EMS financial plan does not identify any funding to address these costs. In other cases, the plan provides reserve funds that may not be accessed due to policy restrictions that did not anticipate the impacts of projected deflation. For example, the ALS Salary and Wage Contingency was established to address higher than expected expenses, but the funds cannot be accessed until

actual salary and benefit costs exceed the Consumer Price Index (CPI) plus one percent. As a result, ALS provider costs will likely increase more than the EMS levy funding provided in the ALS service contracts. Changes to the EMS financial plan will be required to provide greater flexibility for using reserves, or to establish additional reserves for unique, future or higher than anticipated program expenses.

4. Existing EMS reserves, including the Millage Reduction Reserve, were generally managed in accordance with the Council-adopted and voter-approved EMS levy and financial plan. However, some fund balances were designated for other EMS program purposes at the end of 2008 that could potentially have been transferred to the Millage Reduction Reserve, based on the EMS Division's interpretation of a note on the financial plan accompanying the levy ordinance. In addition, funds added to the restricted Millage Reduction Reserve, as well as other restricted and undesignated fund balances, may be needed to supplement revenues for other EMS program expenses during the latter years of the levy. Policy guidance and legal clarifications are necessary to maximize potential millage reductions given multiple and sometimes conflicting reserve requirements as well as to clarify alternate uses of existing reserve and fund balances.

5. While the actual costs incurred for unique or future ALS services are not fully funded, costs for overall program management, some strategic initiatives, and overhead incurred by cities or fire districts providing EMS and other related (but not specifically listed) services may be outside the scope of costs specified in Washington State statutes governing EMS services (RCW 84.52.069). As a result, the levy may be funding unallowable costs. The financial plan could be improved with better clarity of levy provisions, internal consistency among levy-related documents, and an improved understanding of "allowable" EMS program costs.

Policy or legal guidance is also needed to address other EMS planning and implementation issues identified regarding the applications of existing policies that may or may not be consistent with the Council's intention.

EMS Levy Financial Plan Recommendations

1. Develop financial policies that provide further guidance concerning what ALS costs should be funded by the EMS levy. Such policies should explicitly state the County Council's intentions regarding whether all ALS costs should be fully funded, and if so, define what "full funding" means. The definition of full funding should also be subjected to a legal review of EMS costs allowable under state law, specifically RCW 84.52.069(5).

2. Obtain additional data on actual service costs that ALS providers incurred but deducted from billing data due to lack of budget, and costs incurred by ALS providers that are not yet recognized in the budget in defining full funding. The definition should provide sufficient detail to determine whether or not general government overhead and costs of support activities provided by other government departments are allowable, as well as the allowable activities under the Regional Support Services and Strategic Initiative categories. Costs deemed to be allowable to support normal, ongoing operations that are not addressed in the current levy period should be considered in developing the financial plan and standard unit cost model for the next levy period.

3. Identify and account for unusual or infrequent allowable costs. Costs of substantial value should be accumulated and covered by reserves established for their payment. Requests to access the reserves should be included in the next supplemental or annual budget submitted for Council approval and would be controlled similarly to the existing reserves for unanticipated inflation to ensure continued accountability in spending the levy funds.

4. Enhance the clarity and consistency of levy financial policies and their relationship with supporting attachments to address current practices, omissions or apparent inconsistencies to ensure the EMS levy funds are managed in accordance with the intent of the County Council. Such revised policies should focus on identifying alternate uses of the existing restricted reserve and fund balances to address the unanticipated economic conditions and long-term impacts of projected or actual deflation during the six-year levy.

EMS Levy Internal Control and ALS Contract Compliance Summary of Findings

1. The ALS providers maintain accounting systems and related internal controls sufficient to properly manage the financial aspects of their King County contracts. The ALS providers also substantially comply with the 2008 ALS service contract requirements, including the provisions related to: Compensation and Method of Payment; Internal Control and Accounting System; and Equipment Purchases, Maintenance, and Ownership.

2. The EMS Division uses appropriate management controls and processes to provide proper overall program financial management. The King County EMS Division has also established and maintained a system of internal controls sufficient to properly monitor the ALS contracts. Annual budgets for ALS providers are set within the EMS levy financial plan, and billings from ALS providers are reviewed against established budgets. The EMS Division also provides for interaction among ALS contractors to promote consistency in accounting and billing practices through frequent ALS working group meetings, and advises ALS providers on the proper resolution of issues relevant to the EMS levy program.

3. The EMS Division and ALS providers have not clearly communicated on contract issues and practices that could facilitate financial oversight of the EMS Levy program. Better clarity of ALS contracts is necessary to ensure consistency between contractual requirements and standard ALS provider practices. Better accounting period cutoff controls, improved definitions of allocations and overhead charges, and selected changes to individual ALS provider accounting and internal control processes are also required to promote consistency and accountability among ALS providers billings and reimbursements, as well as to ensure full reimbursement of ALS services provided.

4. Not all ALS providers formally reported actual costs incurred to EMS Division management due to ALS contract budget limitations. In some cases, these were routine ALS provider costs. In other cases, the ALS provider costs were either unusual in nature or infrequent, but not currently recognized in the ALS providers' accounting records. These issues adversely affect the accuracy of reported costs, the ability to plan and manage the EMS program as a whole, and the usefulness of the standard unit cost methodology.

EMS Levy Internal Control and ALS Contract Compliance Recommendations

1. Actual ALS services costs should be communicated to EMS Division management to determine whether the cost model is functioning appropriately. Maintenance of the standard unit cost methodology for allocating levy funds to ALS providers should be continued, but based on improved definitions of "normal" costs. Such information would include known costs, actual service costs deducted from the billing data by ALS providers due to lack of budget, and costs incurred by ALS providers that are not yet recognized in the budget. Using the policy definitions from implementing the first two EMS financial plan recommendations above, a policy decision should be made as to whether these costs are allowable. Unanticipated costs should be provided for in reserves and designations of fund balance.

2. The EMS Division and ALS providers should improve financial oversight of the EMS levy program through better clarity of contract requirements, and the development of procedures and definitions related to accounting period cutoff control, allocations and overhead charges, and selected changes to individual ALS provider accounting and internal control processes.

3. The EMS Division should explore the feasibility of implementing the recommendations contained in Appendix E. with each of the appropriate ALS providers to strengthen internal controls, ensure full reporting of all costs, and promote transparency and accountability in the use of EMS levy funding.

Information Contained in this Report

The Introduction Section contains background information on the EMS strategic plan and EMS levy-fund programs. The project scope of work and methods used are briefly described in the Introduction Section of this report with more detailed information provided in Appendix F.

Results of the procedures, identified issues and recommendations offered in this report are provided in two sections. The first section covers the EMS levy financial plan. This includes a comparison of the 2008 financial plan to actual results with additional details provided in Appendix A. The major assumptions used to project future costs, related reserves and major revenue and cost drivers are also discussed with additional details provided in Appendices B and C. Issues related to the structure of the levy and opportunities for millage reduction are discussed in the final portion of this report section with additional details in Appendix D.

The second section covers the ALS providers' internal control and contract compliance. Additional details of the internal control and contract compliance review are provided in Appendix E.

We wish to thank the King County Auditor's Office, the King County EMS Division's management and staff; and the ALS providers for the outstanding level of support and assistance provided in this project.

Miller & Miller, P.S.

July 29, 2009

Introduction

Background

Medic One/Emergency Medical Services System

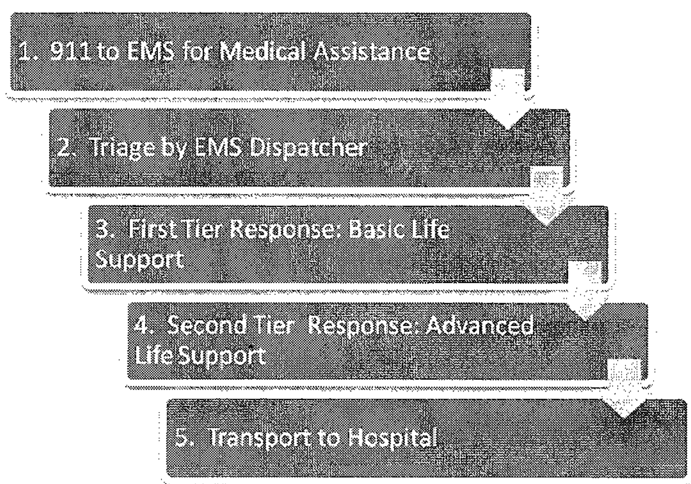
King County's Medic One/Emergency Medical Services (EMS) system provides life-saving medical assistance to the 1.8 million residents throughout the county. *The Medic One/EMS 2008 to 2013 Strategic Plan* is the primary policy and financial document that directs the Medic One/EMS system and the EMS Division as the manager of the regional system. Adopted by King County Council Ordinance 15740 in April 2007, the strategic plan provides a description of services to be supported by the EMS Levy and a financial plan to implement the services consistent with a series of strategic objectives and programmatic recommendations.

An overarching objective of the Medic One/EMS Strategic Plan is to ensure that the county EMS system remains a regional, cohesive, medically-based, tiered response system by:

- Maintaining the system as an integrated regional network of basic and advanced life support services provided by King County, local cities, and fire districts.
- Making regional delivery and funding decisions cooperatively, and balancing the needs of advanced life support, basic life support, and regional programs emphasizing uniformity of medical care, training and quality assurance from a system-wide perspective.
- Developing and implementing strategic initiatives to provide greater effectiveness and efficiencies within the EMS system.

As shown in Exhibit 1, there are five components to the regional tiered EMS system although some 911 calls (e.g., non-life threatening) may only involve steps 1 through 3 rather than all five steps.

Exhibit 1: Medic One/EMS Response System

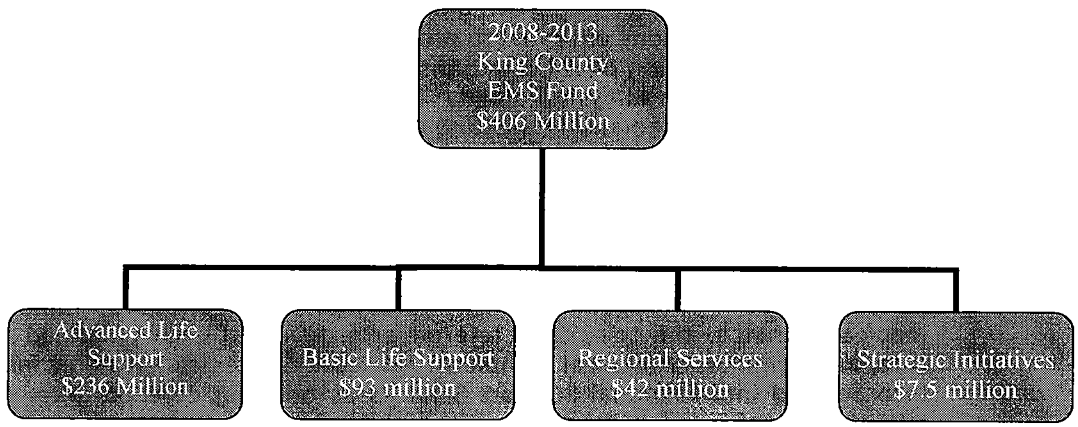


Financing EMS Services in King County

The Washington State Legislature authorized the use of a regional EMS levy to fund emergency medical services in 1979. King County has used this ability under the Revised Code of Washington (RCW) 84.52.050 to pass six countywide levies from 1979 to 2007. The most recent six-year levy, for years from 2008 to 2013, is the subject of this review.

The Medic One/EMS levy is a countywide voter approved levy at a rate of $.30 per $1,000 on assessed property value and was expected to generate approximately $628 million during the six year period, with $222 million allocated directly to the City of Seattle. As shown in Exhibits 2 and 3, the remaining $406 million in funding received by King County is placed into the King County EMS Levy Fund. Exhibit 2 below also shows expenditures for the four EMS programs.

Exhibit 2: Summary of EMS Levy Funding by Program



In addition to the four EMS programs identified above, the 2008-2013 strategic plan and financial plan provide $20 million in levy revenues for some new reserve and contingency funds to address unanticipated expenses, inflation, disasters, and other factors in the financial plan and $422,000 for audit expenses (see Exhibit 3 below). While the financial plan anticipated the effects of inflation on various components of EMS services, it did not anticipate the prospect of deflation or the impact of a significant decline in property tax revenues.

EMS Levy-Funded Programs

The four programs supported by the EMS levy are described in the EMS Strategic Plan as follows:

Advanced Life Support (ALS) Services—Funding ALS services is the priority of the Medic One/EMS levy. ALS service is provided by six major paramedic providers who provide out-of-hospital emergency medical care for critical or life-threatening injuries and illnesses. ALS providers respond to approximately 30 percent of all EMS responses. The Medic One/EMS levy supports ALS services based on a standard unit cost methodology. The EMS Strategic Plan defines the standard unit cost as the total expenses of staffing and operating a fully-equipped and supplied medic unit with two Harborview-trained paramedics, 24 hours a day for 365 days a year. To ensure that yearly budgeted costs accurately reflect actual costs, the cost model includes various inflation factors to compute the estimated yearly unit cost allocation. Fully funding ALS costs to avoid cost shifting to local agencies is identified as a specific financial objective in the EMS Strategic Plan.

Basic Life Support (BLS) Services—BLS service is only partially funded by the levy because the funding priority of the levy is ALS services. The current EMS levy provides funding for more than 3,500 Emergency Medical Technicians (EMTs) employed by 28 different fire districts throughout King County to help ensure uniform and standardized patient care. Historically, increases to the BLS allocation have been either limited to growth in the total levy amount, or limited to the Consumer Price Index (CPI). The current EMS levy provides an increase for BLS services based on a model that uses a 50-50 percent combination of the assessed value of real property and call volumes within a given BLS service area. The financial plan uses the CPI as the inflator for BLS funding increases during the future years of the levy.

Regional Support Services—Core regional Medic One/EMS programs and services support critical functions essential to providing out-of-hospital emergency care. They include uniform training of EMTs and dispatchers, regional medical control, regional data collection and analysis, quality improvement activities, and financial and administrative management by the King County EMS Division (including management of ALS and BLS contracts). Annual increases for regional services are estimated at CPI plus one percent in the financial plan.

Strategic Initiatives—Strategic initiatives are new pilot programs and operations designed to improve the quality of EMS services and manage the growth and costs of the system. Several on-going strategic initiatives include enhanced rapid emergency medical dispatch, the telephone referral project for 911 calls defined as primary care, and community medical technician services. Successful strategic initiatives are incorporated into Regional Support Services as ongoing core programs. Strategic initiatives are funded with project life budgets since their activities are conducted over several years, but may also include inflationary assumptions similar to those used for regional services.

Exhibit 3 is the EMS Levy Financial Plan attached to Ordinance 15861. As shown below, the EMS levy approved by the County Council and adopted by the voters provides an average of approximately $68 million annually for advanced life support, basic life support, regional services, and strategic initiatives.

Exhibit 3: 2008-2013 Emergency Medical Services Levy Financial Plan

EMERGENCY MEDICAL SERVICES LEVY FINANCIAL PLAN

	2006 Actuals	2007 Estimated	2008 Proposed	2009 Proposed	2010 Proposed	2011 Proposed	2012 Proposed	2013 Proposed
BEGINNING FUND BALANCE	**10,733,241**	**9,296,940**	**6,070,111**	**7,478,574**	**9,530,365**	**12,298,857**	**13,976,201**	**14,467,537**
REVENUES								
Property Taxes	38,112,894	39,324,543	62,349,590	64,065,620	65,813,748	67,630,570	69,508,371	71,460,527
State Grants	1,463	0	0	0	0	0	0	0
Intergovernmental Payment	278	0	0	0	0	0	0	0
Charges for Services	80,571	82,950	52,000	54,340	56,785	59,341	62,011	64,801
Interest Earnings/Miscellaneous Revenue	1,352,798	483,574	306,541	366,450	457,458	571,897	649,893	672,740
Other Financing Sources	9,059	5,040	4,503	3,567	3,179	2,831	2,621	2,457
Transfer from Current Expense Subfund	375,000	375,000	375,000	375,000	375,000	375,000	375,000	375,000
EMS REVENUE TOTAL	**39,932,064**	**40,271,107**	**63,087,633**	**64,864,978**	**66,706,170**	**68,639,638**	**70,597,895**	**72,575,526**
EXPENDITURES								
Advanced Life Support Services	(27,445,965)	(27,945,082)	(34,558,361)	(36,100,374)	(37,869,114)	(40,021,655)	(42,274,793)	(45,408,597)
Bellevue Fire Department	(5,719,090)	(6,210,085)	(7,368,004)	(7,602,457)	(7,870,564)	(8,237,859)	(8,631,040)	(9,048,314)
King County Medic One	(12,456,489)	(11,783,566)	(14,080,283)	(14,795,608)	(15,189,092)	(15,880,326)	(16,620,212)	(17,405,389)
Redmond Fire Department	(4,233,568)	(4,780,238)	(5,345,018)	(5,776,283)	(5,902,923)	(6,178,394)	(6,473,280)	(6,786,235)
Shoreline Fire Department	(3,659,425)	(3,758,230)	(4,840,864)	(4,689,502)	(4,919,102)	(5,148,662)	(5,394,400)	(5,655,196)
Skykomish/King County Fire District 50	(60,000)	(60,000)	(170,058)	(178,911)	(187,592)	(196,243)	(205,509)	(215,346)
Vashon Fire Department	(1,317,393)	(1,352,963)	(1,603,505)	(1,688,221)	(1,770,877)	(1,853,518)	(1,941,984)	(2,035,871)
New Units/Unallocated	N/A	N/A	(907,463)	(937,900)	(1,579,607)	(2,059,465)	(2,522,081)	(3,755,693)
Outlying Area Service Levels	N/A	N/A	(243,167)	(431,491)	(449,356)	(467,189)	(486,285)	(506,554)
Basic Life Support Services	(9,420,513)	(9,674,868)	(14,390,254)	(14,886,717)	(15,333,319)	(15,738,118)	(16,163,048)	(16,599,450)
Auburn Fire Department	(360,914)	(371,121)	(574,225)	(594,040)	(611,863)	(628,018)	(644,976)	(662,392)
Bellevue Fire Department	(1,164,786)	(1,208,884)	(1,862,757)	(1,927,035)	(1,984,852)	(2,037,257)	(2,092,268)	(2,148,765)
Black Diamond Fire Department	(48,770)	(50,087)	(63,976)	(66,184)	(68,170)	(69,970)	(71,859)	(73,799)
Bothell Fire Department	(190,302)	(201,298)	(316,243)	(327,156)	(336,972)	(345,869)	(355,208)	(364,800)
Duvall Fire Department	(110,372)	(110,372)	(145,444)	(150,463)	(154,977)	(159,069)	(163,364)	(167,775)
Eastside Fire and Rescue	(949,850)	(949,850)	(1,328,850)	(1,374,704)	(1,415,950)	(1,453,334)	(1,492,578)	(1,532,881)
Enumclaw Fire Department	(230,549)	(230,549)	(285,744)	(295,604)	(304,473)	(312,512)	(320,951)	(329,617)
Kent Fire and Life Safety	(759,340)	(775,056)	(1,190,773)	(1,231,863)	(1,268,823)	(1,302,323)	(1,337,489)	(1,373,605)
King County Fire District 2	(227,173)	(239,292)	(374,201)	(387,114)	(398,729)	(409,256)	(420,307)	(431,656)
King County Fire District 20	(106,458)	(112,317)	(164,387)	(170,059)	(175,161)	(179,786)	(184,641)	(189,627)
King County Fire District 27	(67,418)	(69,238)	(92,176)	(95,357)	(98,218)	(100,811)	(103,533)	(106,329)
King County Fire District 40	(210,667)	(210,667)	(299,191)	(309,515)	(318,801)	(327,218)	(336,054)	(345,128)
King County Fire District 44	(252,271)	(252,271)	(324,765)	(335,972)	(346,052)	(355,189)	(364,780)	(374,630)
King County Fire District 47	(18,705)	(19,210)	(23,051)	(23,846)	(24,561)	(25,209)	(25,890)	(26,589)
King County Fire District 49 (51)	(18,354)	(18,850)	(22,909)	(23,700)	(24,411)	(25,056)	(25,733)	(26,428)
King County Fire District 50	(32,348)	(33,221)	(40,921)	(42,333)	(43,603)	(44,754)	(45,962)	(47,203)
Kirkland Fire Department	(495,286)	(512,252)	(789,132)	(816,362)	(840,855)	(863,056)	(886,361)	(910,295)
Maple Valley Fire and Life Safety	(304,293)	(304,293)	(409,441)	(423,570)	(436,278)	(447,797)	(459,889)	(472,307)
Mercer Island Fire Department	(235,416)	(244,629)	(376,189)	(389,170)	(400,846)	(411,429)	(422,539)	(433,949)
Milton Fire Department	(14,104)	(14,859)	(20,320)	(21,021)	(21,652)	(22,224)	(22,824)	(23,440)
North Highline Fire Department	(271,067)	(280,748)	(404,954)	(418,928)	(431,497)	(442,890)	(454,849)	(467,131)
Northshore Fire Department	(203,896)	(211,146)	(326,232)	(337,489)	(347,615)	(356,793)	(366,427)	(376,321)
Pacific Fire Department	(36,000)	(36,972)	(51,115)	(52,879)	(54,466)	(55,904)	(57,414)	(58,964)
Pierce County Fire District 27	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Redmond Fire Department	(539,880)	(574,375)	(863,640)	(893,442)	(920,248)	(944,545)	(970,050)	(996,244)
Renton Fire Department	(492,082)	(514,465)	(801,932)	(829,604)	(854,495)	(877,056)	(900,739)	(925,061)
Sea Tac Fire Department	(213,386)	(221,407)	(343,637)	(355,495)	(366,161)	(375,829)	(385,977)	(396,399)
Shoreline Fire Department	(376,181)	(380,055)	(580,829)	(600,872)	(618,900)	(635,240)	(652,393)	(670,009)
Snoqualmie Fire Department	(52,033)	(53,702)	(82,646)	(85,498)	(88,063)	(90,388)	(92,829)	(95,336)
South King Fire and Rescue	(772,172)	(787,067)	(1,210,071)	(1,251,827)	(1,289,386)	(1,323,429)	(1,359,165)	(1,395,866)
Tukwila Fire Department	(224,182)	(231,283)	(357,958)	(370,310)	(381,420)	(391,490)	(402,061)	(412,918)
Vashon Fire Department	(129,619)	(129,619)	(180,435)	(186,661)	(192,261)	(197,337)	(202,666)	(208,139)
Woodinville Fire and Life Safety District	(311,139)	(324,180)	(480,561)	(497,144)	(512,060)	(525,580)	(539,772)	(554,347)
Regional Services	(3,826,680)	(4,798,846)	(6,102,144)	(6,478,134)	(6,838,366)	(7,197,262)	(7,578,964)	(7,945,012)
Strategic Initiatives	(674,484)	(867,040)	(1,246,560)	(1,491,275)	(1,253,878)	(1,239,355)	(1,195,153)	(1,114,543)
Encumbrance Carryover	0	0	0	0	0	0	0	0
ALS Salary and Wage Contingency	0	0	(2,104,452)	(2,199,152)	(2,298,114)	(2,401,529)	(2,509,598)	(2,622,530)
EMS 2002-2007 Reserves	(723)	(212,100)	0	0	0	0	0	0
Disaster Response Contingency	0	0	(3,216,379)	(4,809,156)	(5,085,682)	(5,378,109)	(5,687,350)	(6,014,373)
Prior Disaster Response Underexpenditure	0	0	0	3,216,379	4,809,156	5,085,682	5,378,109	5,687,350
King County Auditor's Office			(61,000)	(64,759)	(68,360)	(71,947)	(75,763)	(79,822)
EMS EXPENDITURE TOTAL	**(41,368,365)**	**(43,497,936)**	**(61,679,170)**	**(62,813,187)**	**(63,937,677)**	**(66,962,294)**	**(70,106,560)**	**(74,096,976)**

Exhibit 3: 2008-2013 Emergency Medical Services Levy Financial Plan (Continued)

EMERGENCY MEDICAL SERVICES LEVY FINANCIAL PLAN

	2006 Actuals	2007 Estimated	2008 Proposed	2009 Proposed	2010 Proposed	2011 Proposed	2012 Proposed	2013 Proposed
ENDING FUND BALANCE	9,296,940	6,070,111	7,478,574	9,530,365	12,298,857	13,976,201	14,467,537	12,946,087
RESERVES AND DESIGNATIONS								
Encumbrances	(977,521)	(977,521)	(977,521)	(977,521)	(977,521)	(977,521)	(977,521)	(977,521)
Reappropriation	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Designations								
Prepayment	0	0	0	0	0	0	0	0
ALS Provider Balances	0	(1,022,900)	(1,022,900)	(1,022,900)	(1,022,900)	(1,022,900)	(1,022,900)	(1,022,900)
ALS Provider Loans	0	0	0	0	0	0	0	0
Reserves for Unanticipated Inflation								
Diesel Cost Stabilization	0	0	(756,000)	(1,512,000)	(2,457,000)	(2,897,541)	(2,933,280)	(1,613,304)
Pharmaceuticals/Medical Equipment	0	0	(230,000)	(506,000)	(828,000)	(1,097,000)	(877,600)	(447,576)
Call Volume/Utilization Reserve	0	0	(244,000)	(488,000)	(732,000)	(1,159,600)	(1,220,000)	(632,000)
Reserves								
Chassis Obsolescence	0	0	(375,000)	(375,000)	(562,500)	(562,500)	(562,500)	(562,500)
Risk Abatement	0	0	0	(565,000)	(565,000)	(565,000)	(565,000)	(565,000)
Millage Reduction	0	0	0	0	(1,000,000)	(1,500,000)	(2,000,000)	(2,500,000)
TOTAL RESERVES AND DESIGNATIONS	(1,002,521)	(2,025,421)	(3,630,421)	(5,471,421)	(8,169,921)	(9,807,262)	(10,183,801)	(8,545,801)
ENDING UNDESIGNATED FUND BALANCE	8,294,419	4,044,690	3,848,153	4,058,944	4,128,936	4,168,939	4,283,736	4,400,286
Fund Balance as % of Revenue	N/A	N/A	6.10%	6.26%	6.19%	6.07%	6.07%	6.06%
EXCESS OVER/UNDER 6% MINIMUM	N/A	N/A	62,895	167,045	126,566	50,561	47,862	45,754

The 2008 to 2013 EMS levy financial plan, shown in Exhibit 3, identifies the estimated amount of revenues generated annually from the levy, and allocates a large percentage of those revenues to cover operating costs for the four EMS programs described above. The remaining levy revenues are distributed to a series of contingencies, reserves and designations. The EMS levy financial plan and attachments approved by the County Council and voters identifies specific purposes, restrictions, and thresholds in using and accounting for the funds. In addition, the financial plan requires an undesignated fund balance equivalent to six percent of the annual revenues.

Scope and Objectives

This review focuses on the implementation of the EMS levy during 2008. The primary purposes of the review are to determine whether the King County EMS Division and its ALS service providers are effectively managing the financial aspects of the EMS program; and whether the EMS financial plan is reasonable, transparent and provides for adequate funding and financial stewardship.

The scope of work for this project focuses on specific financial and compliance aspects of the EMS levy programs including the financial models and the underlying assumptions developed to assist the EMS Division in determining yearly budgeted costs.

We considered the payroll, cash disbursements, contract billing and equipment management internal control processes and entities involved in the administration of the EMS levy to be included in the scope of work. However, for selected project tasks, such as site visits and internal control review procedures, we excluded the City of Seattle and entities only providing BLS services as instructed in our contractual arrangement with the King County Auditor's Office. The random and judgmental selections of levy transactions are limited to only those transactions processed during the year ended December 31, 2008.

While this project reviews certain aspects of financial, compliance, and performance, it is not designed to provide an attestation regarding any historical financial statements produced by King County, the EMS Division or any ALS service provider. Furthermore, this project is not designed to provide an opinion on the design or operation of internal controls used by either King County or the ALS service providers. However, assessments resulting from the work are described in this report.

Methods

The information necessary to provide the required analysis and results was obtained through interviews of EMS Division and ALS program participants and a review of documentation supporting recorded financial amounts and compliance with ALS contractual requirements. We obtained internal control system descriptions and documented the current internal control structure and accounting systems using internal control questionnaires.

Our review included a comparison of the financial plan to actual financial results for the year ended December 31, 2008, including a comparison of the cost escalation factors used to project future costs to historical trends. The cost escalation factors reviewed are contained in the Ordinance 15861 attachments and include the Consumer Price Index, benefit and pension costs, pharmaceutical costs, and diesel fuel costs. We also reviewed the escalation factors in relation to the reserve requirements contained in the levy.

Our sensitivity analysis focused on the two main financial drivers that most impact future EMS program revenue and cost projections. Assessed property valuation and ALS salary and wages have the most material impact on the projection of future levy revenue and costs. For each major driver we calculated the effect of percentage changes on the EMS levy financial plan. We also discuss the results in relation to the available fund balance, and the percentage change in assessed property valuation or ALS salary and wages (or combination of both) that could be covered by existing reserves.

Finally, we reviewed how the EMS financial policies are followed in practice. Based on the review, we identified areas that would benefit from clarification or changes to policy or contracts to allow for improved program operations.

We used a standard sample size formula for determining the required sample for the ALS provider control attribute and substantive compliance tests. We selected a sample of 72 ALS provider disbursement transactions and 72 payroll transactions. We applied this sample to the EMS levy as a whole, which required an allocation of the sample among the various ALS service providers. The average percentage of cost values and transaction numbers was used to perform this allocation. To test for ALS provider compliance with contractual equipment procurement, control, and management, we selected one unit from each ALS service provider from the equipment inventory list. The sample selection methods and the results of our transaction testing are more fully described in Appendix F.

2008 EMS Levy Financial Plan and Practices

Introduction

One of the primary purposes of this review is to determine whether the EMS financial plan provides for adequate EMS funding and financial stewardship. Consistent with our contract with the King County Auditor's Office, this review of the EMS levy financial plan includes the following requirements:

- Assess the ALS and BLS financial models and determine if model assumptions, inflationary factors, reserves, and other variables represent an accurate, complete and reasonable set of criteria in projecting yearly budgeted costs during the levy period. Determine whether the process to annually update EMS financial model variables is adequate, assess the impact of the current economic situation on EMS funding, and identify opportunities for potential millage reductions for the duration of the levy.

- Advise the KCAO on the adequacy of policies, procedures and internal controls governing use of the reserved and unreserved fund balances.

This section of the report addresses various aspects of the EMS levy financial plan. The first portion provides the assessment of current practices followed by our recommendations. It includes a comparison of the plan to actual 2008 results with additional details presented in Appendix A. The major assumptions used to project future costs, related reserves and major revenue and cost drivers are briefly discussed in the financial plan design portion of the report with additional details provided in Appendices B and C. Issues related to the structure of the levy and opportunities for millage reduction are discussed more fully in Appendix D.

Review of Financial Plan against 2008 Actual Results

Implementation of 2008 EMS Levy Financial Plan

Based on our review, we determined that the financial plan and model, including the assumptions, inflationary factors, reserves, and other variables were consistent with those approved by the County Council and voters and reasonable in projecting annual budgets and operating costs for the first year of the EMS levy implementation. The structure of the EMS levy financial plan was also adequate to provide for appropriate financial administration and management of the levy during 2008.

To verify the reasonableness of the financial plan in projecting annual budgets and operating costs, we compared the actual 2008 EMS revenues, expenditures and reserve activity to the estimated amounts identified in the 2008 financial plan adopted by the Council. The results of the detailed comparison are contained in Appendix A and are summarized in Exhibit 4 below.

Exhibit 4: Summary Comparison of 2008 Results to Financial Plan

	2008 Proposed (15861)	2008 Adopted Budget with Amendments	Difference	2008 Actual	Difference
BEGINNING FUND BALANCE	$ 6,070,111	$ 6,070,111	$ -	$ 6,242,796	$ 172,685
EMS REVENUE TOTAL	63,087,634	61,723,759	(1,363,875)	65,949,651	4,225,892
EXPENDITURES					
Advanced Life Support Services	(34,558,361)	(34,882,373)	(324,012)	(32,585,628)	2,296,745
Basic Life Support Services	(14,390,254)	(14,390,254)	-	(14,256,340)	133,914
Regional Services	(6,102,144)	(6,339,601)	(237,457)	(5,294,071)	1,045,530
Strategic Initiatives	(1,246,580)	(1,361,580)	(115,000)	(591,206)	770,374
Total Expenditures	(56,297,339)	(56,973,808)	(676,469)	(52,727,245)	4,246,563
Total Excess of Revenues Over Expenditures	6,790,295	4,749,951	(2,040,344)	13,222,406	8,472,455
Other Items Affecting Fund Balance	(5,381,831)	(4,584,673)	797,158	220,809	4,805,482
ENDING FUND BALANCE	7,478,575	6,235,389	(1,243,186)	19,686,011	13,450,622
TOTAL RESERVES AND DESIGNATIONS	(3,630,421)	(1,932,114)	1,698,307	(11,250,889)	(9,318,775)
ENDING UNDESIGNATED FUND BALANCE	$ 3,848,154	$ 4,303,275	$ 455,121	$ 8,435,122	$ 4,131,847

The results indicate that the actual 2008 EMS levy revenues exceeded the *adopted budget with amendments* by $4.2 million, and actual expenditures were less than the budget by $4.2 million. Actual excess revenues over expenditures equaled $13 million during 2008 compared to the plan of $4.7 million. Factors contributing to the excess revenues included approximately $2.7 million in "banked" provider balances, consisting of $800,000 for King County Medic One (KCM1) equipment replacements, $1.1 million for ALS provider balances and equipment replacements, and $800,000 in unspent budget for Regional Services.

The positive net difference of approximately $8.5 million was reduced by additions to three reserves and designations:

1. $2.1 million was added to the reserve for encumbrances,
2. $2.6 million was added to designations for KCM1 equipment and the provider/program balances, and
3. $4.6 million was added to the reserve for millage reduction.

These additions or transfers reduced the ending undesignated fund balance by approximately $9 million of the $13 million in excess of revenues over expenditures.

Due to these variances the ending undesignated fund balance of $8.4 million was approximately $4.1 million more than the adopted 2008 budget with amendments and $4.6 million more than the original proposed 2008 budget in King County Ordinance 15861. The actual ending undesignated fund balance as a percent of annual revenue was also well above the six percent threshold established by the EMS levy financial plan.

Therefore, the structure of the financial plan was adequate for the overall administration and management of the levy funds in 2008. Levy funding was allocated to and used for the purposes listed in the plan, and specific restrictions and thresholds were observed by the EMS Division in implementing the plan. Despite the high degree of compliance from the EMS Division, several policy and plan implementation issues were identified that were not specifically addressed or clearly articulated in the financial plan or authorizing legislation. These plan implementation issues, which include unreported ALS provider costs, and the ability to carry over unused ALS provider contract amounts and unspent budget for Regional Support Services and Strategic Initiatives, are explored in more detail in the next section of the report.

EMS Levy Financial Plan and Practices

The process used to update the financial plan in 2008 incorporates appropriate economic assumptions. The current economic assumptions used to project future costs, when considered in relation to the reserves established to manage the risk of inflationary impacts, were also sufficient to provide stable funding through 2009. Modification of the current EMS levy financial plan, however, may be required between 2010 and 2013 due to unanticipated economic conditions, the impacts of projected deflation and unique ALS program costs that were not considered when the financial plan was developed.

A complete discussion of the assessment of the adequacy of model assumptions, inflationary factors, reserves, and other variables is provided in Appendix B along with a sensitivity analysis of revenues and cost drivers provided in Appendix C. The assessment of significant assumptions and cost drivers are also presented below along with conclusions regarding the impact of recent economic trends on EMS levy revenue and expense projections in 2009 and beyond.

Assumptions, Cost Drivers, and Reserves

The EMS financial plan assumes a maximum millage rate of $0.30 per $1,000 Assessed Property Value will generate sufficient revenue to cover program costs. The financial plan also assumes continued annual growth in property tax revenue throughout the six-year levy period, subject to a 1 percent growth limitation (RCW 84.52.050) plus revenues from assessments of new construction.

Inflation assumptions directly affect the contract values for ALS and BLS. The ALS unit allocation model assumes salary and wage growth based upon CPI plus 1 percent. BLS costs are assumed to increase in direct proportion to the CPI.

Property tax revenues and inflation are the two most significant drivers of the EMS Levy Financial Plan. We performed a sensitivity analysis of selected financial plan cost drivers, linked to specified inflators to determine their relative significance and the adequacy of related reserves.[1] The sensitivity analysis presented in Exhibit 5 calculates the impact of a 1 percent change in the major EMS levy revenue and expense categories.

[1] The cost escalation factors reviewed are contained in the Ordinance 15861 attachments and include the Consumer Price Index, benefit and pension costs, pharmaceutical costs, and diesel fuel costs.

Exhibit 5: Effect of a One Percent Change in Selected EMS Revenues and Costs

	2008 Proposed Plan Values	Inflator	Effect of 1% Change
Property Tax Revenues	$ 64,735,969	N/A	$ 650,000
Advanced Life Support Services			
Salary and Wages including overtime	20,893,413	CPI+1%	208,934
Benefits	5,525,805	Various	55,258
Medical Supplies and Equipment	941,934	Pharmacy/Drug	9,419
Vehicle Maintenance Costs	558,877	Vehicle Costs	5,589
Diesel Costs	204,341	Diesel Costs	2,043
All Other Operating Costs	1,954,513	CPI	19,545
Indirect/Overhead Costs	1,626,074	CPI+1%	16,261
ALS Operational Total	31,704,957		317,050
ALS Capital	1,471,582	Vehicle Costs	14,716
Other ALS Costs	1,381,823	N/A	-
Total ALS Allocation	34,558,362		331,765
Basic Life Support Services	14,390,254	CPI	143,903
Regional Services	6,102,144	Various	61,021
Strategic Initiatives	1,246,580	Various	12,466
Total EMS Costs	$ 56,297,340		$ 549,155

Exhibit 5 shows that property tax revenue, by far, is the most significant driver with each 1 percent change representing approximately $650,000 in levy tax revenues. Inflation is the other significant driver of the financial plan with each 1 percent increase in CPI causing ALS salaries and wages to increase approximately $209,000.

In Exhibit 6 below, the specified reserves are viewed in relation to the percentage increase in costs that can be covered by existing reserves based on the values calculated above.

Exhibit 6: Relationship of Selected Costs to Reserve Balances

	2008 Actual	Related Revenue/Cost	% of Cost Increase Covered
Reserves			
Encumbrances	$2,138,516	Not Available	
Diesel Cost Stabilization	756,000	Diesel Costs	370%
Pharmaceuticals/ Medical Equipment	230,000	Medical Supplies and Equipment	24%
Call Volume/Utilization Reserve	244,000	Not tied to specific cost	
Chassis Obsolescence	375,000	ALS Capital Costs	25%
Millage Reduction	4,562,096	Property Tax	7%
DESIGNATIONS	2,945,277	Not Available	
UNDESIGNATED FUND BALANCE	8,435,122		
TOTAL ENDING FUND BALANCE	$19,686,011		
Contingent Appropriation-ALS Salary and Wage Contingency	$2,104,452	ALS Salary and Wages, Benefits	8%

As shown in Exhibit 6, the current ALS Salary and Wage Contingency is sufficient to cover an 8 percent increase above the amount contained in the financial plan. Although the Salary and Wage Contingency is sufficient to offset inflationary risk, the contingency funding may be inaccessible to cover actual ALS provider labor costs in 2010 due to current levy policy. This is because the county currently projects wage inflation for 2009 at 0.90 percent (CPI -0.10 percent plus 1 percent). While no reserve is currently established that can be readily accessed for this situation, there does not appear to be any prohibition to using excess unreserved and undesignated fund balance above the required six percent minimum ending fund balance to cover actual labor costs.

The Diesel Cost Stabilization Reserve is sufficient to cover an increase of 370 percent, which is substantially more than the increase of 36 percent experienced from 2007 to 2008. This reserve also builds each year through 2012. The Pharmaceuticals/Medical Equipment Reserve is sufficient to cover a 24-percent increase in related medical supplies over the amounts contained in the financial plan which are already assumed to inflate at nearly 12 percent per year. This reserve also builds through 2011 with draw downs in the final two years of the levy. Therefore, the Diesel Stabilization Reserve and the Pharmaceuticals/Medical Equipment Reserve appear adequate to cover extraordinary price volatility.

Other than Diesel and Pharmaceuticals/Medical Equipment, there are no specified reserves for unanticipated inflation. The lack of reserves for other types of unanticipated inflation is not considered a significant risk to the overall financial management of the levy program for three main reasons:

1) Assumed inflators for employee benefits appear to be sufficient to cover benefit cost increases (an 11-percent assumption is used for medical benefits from 2010 through 2013), while actual experience ranges from 3.97 percent in 2007 to 5.02 percent in 2008.
2) CPI assumptions, which play a much larger role than the other inflators due to its use in projecting ALS provider salaries, wages and other operating costs, appear reasonable given the current inflationary outlook. Except for 2010, vehicle costs are also inflated at rates above CPI.
3) The values of other types of inflation are insignificant in relation to the other major business drivers.

CPI is also used to determine the annual change in the BLS allocation. The BLS allocation is significant to the financial plan, but there is no specified reserve to address unanticipated inflation for the BLS allocation. Reserves for encumbrances and designations of fund balance are not available to fund future unanticipated inflation. However, the assumptions used to project costs in future years, combined with established reserves, will likely be adequate to offset financial risks due to inflationary increases.

Although the EMS financial plan assumptions were reasonable to project revenues and expenses for 2008 and 2009, modification of the financial plan is needed to address dynamic economic conditions. In July 2009, the Office of Management and Budget updated its economic forecast and projected assessed property valuation decreases of 17 to 18 percent for 2009. The decline in assessed values is expected to result in a corresponding reduction in property tax revenues in 2010 and the remaining years of the EMS levy. The currently calculated millage reduction reserve shown in Exhibit 6 is sufficient to cover only a 7-percent decrease in property tax collections, although it is not intended to be used for this purpose. Mechanisms available within the levy constraints will also be needed to address the ALS labor cost issues described above.

ALS Unit Cost Methodology

The EMS standard unit cost model is an appropriate tool for allocating normal costs to individual ALS service providers, but does not have sufficient provisions to address unique, future, or higher than anticipated costs. EMS levy funds are allocated to ALS providers using a standard unit cost methodology. The standard unit cost allocation is based on the average annual operating costs, across all ALS agencies, to provide a two-paramedic, 24-hour medic unit.

We noted two issues regarding the sufficiency of standard unit cost information. First, some ALS providers deducted actual service costs from the billing data provided to the EMS Division due to budget limitations. Second, some costs incurred by ALS providers are not yet recognized in the budget, recorded in the ALS providers' accounting records, or reported to decision makers. This adversely affects the accuracy of reported costs, the ability to plan and manage the EMS program as a whole and the usefulness of the standard unit cost methodology. It would be reasonable for the EMS Division to develop a mechanism to obtain and document complete information about the full costs incurred by its ALS service providers in the normal, ongoing operations of the ALS program, and include these costs in the standard unit cost model.

In addition, some of the unreported costs are unusual in nature or infrequent, but are of substantial value. ALS providers identified the following unanticipated and unique expenses subsequent to the development of the 2008 to 2013 EMS Strategic Plan that were not covered in the cost allocation model:

- King County employee conversions from PERS to LEOFF II retirement systems.
- Arbitrated settlement of labor contract negotiations that required a retroactive wage adjustment for services rendered in a prior contract year.
- Increased insurance cost allocations from a self-insured internal service fund resulting from large unanticipated personal injury claims.
- Future facility expansion costs and unrecorded liabilities such as unfunded post-employment benefits, etc.

Currently, the EMS Division is dealing with the unfunded liabilities on a case-by-case basis. In some cases, the EMS financial plan does not identify any funding to address these costs. In other cases, the plan provides reserve funds sufficient to cover unique and substantial expenses, but the funds may not be accessible due to policy restrictions that do not consider the current financial conditions. A good example is the ALS Salary and Wage Contingency that was established to address higher than expected expenses, but the limitations on the use of the contingency prohibit its use in addressing the current funding situation caused by very low CPI projections.

Another mechanism is necessary to address large, unfunded liabilities. If fully provided for as a matter of policy, the unfunded liabilities will significantly reduce the potential for millage reduction. A more financially prudent approach would be to establish specified reserves and designations of fund balance for these items that require Council approval to access. Requests to access the reserves could be included in the next supplemental or annual budget submitted for Council approval and controlled similarly to the existing reserves for unanticipated inflation.

Reserve limitations and other policy restrictions may no longer be effective during the remaining years of the levy, particularly if ALS provider costs continue to increase more than the EMS levy funding provided in the ALS service contracts. In that event, change to the EMS financial plan would be needed to provide greater flexibility in using levy reserves for unique, future, or higher than anticipated program expenses.

EMS Levy Reserves and Designations

Existing EMS reserves, including the Millage Reduction Reserve, were generally managed in accordance with the Council-adopted and voter-approved EMS levy and financial plan. Policies governing the establishment of contingent appropriations or reserves are contained in the EMS levy sections 8 through 13. Each section identifies the purpose and restrictions upon the reserve's use. The text of Section 8 is summarized in Appendix B—*Financial Plan Design* and text of Sections 9 through 13 is summarized in Appendix D—*Levy Construct Issues.* Section 13 of the EMS levy creates a Millage Reduction Reserve.

During 2008, EMS levy revenues exceeded the budget with amendments and actual expenditures were less than the budget. Since the actual excess revenues over expenditures equaled $13 million compared to the plan of $4.7 million, there were no expenditures of contingent appropriations or use of specified reserves. As such, we could not observe accounting or budgetary internal controls over these items in operation. Nevertheless, we found that EMS Division understood the applicable restrictions and generally managed the existing EMS contingent and reserve funds appropriately.

At the end of 2008, some excess fund balances were designated for other EMS program purposes that could potentially have been transferred to the Millage Reduction Reserve. In addition, funds applied to the Millage Reduction Reserve, as well as other restricted and undesignated fund balances will be needed to supplement reduced revenues required for program operations during the latter years of the levy. Policy guidance and legal clarifications are necessary to clarify alternate uses of existing reserve and fund balances as discussed in the following two sections of the report.

Opportunities for Millage Reduction

Section 13 of the 2008 to 2013 EMS Levy established a Millage Reduction Reserve where excess revenues could be accumulated and used to reduce future property tax levies. However, opportunities for millage reductions in the remaining years of the EMS levy are limited due to the substantial decline in King County's 2009 Assessed Property Valuations. Overlapping policy directions and mandates also directly impact the accumulation of millage reduction funding. The policy considerations are presented below in the event that economic conditions improve significantly during the current levy period, or if a Millage Reduction Reserve is considered desirable for inclusion in a future EMS levy.

Examples of EMS levy policies and provisions that minimize the opportunity for millage reduction include:

1. Section 12 of the levy (King County Ordinance 15861) states that ALS and BLS allocations shall be made in accordance with the baseline cost and inflation assumptions contained in Attachment C. Allocations will be adjusted proportionally based on actual inflation in the preceding year, as published by

the referenced statistical agency. This financial policy limits EMS Division management's ability to reduce contract amounts.

2. Section 13 of the levy that creates the Millage Reduction Reserve requirement is very specific and somewhat limiting in its application. It identifies four components for calculating the millage reduction reserve:

   - The $2.5 million listed in the financial plan accumulating from 2010 through 2013,
   - Excess property tax collections, which may be minimal given that the financial plan is updated annually,
   - Any surpluses from lower than expected section 12 ALS and BLS costs, which may be minimal given that they are adjusted to preceding year actual CPI, and
   - Unused ALS salary and wage contingency. Note (e) to the financial plan presented in Attachment A to the levy (Ordinance 15861) states that the unused ALS salary and wage contingency can be used to replenish other reserves, even though no such provision is expressly stated in levy section 13.

While not specifically authorized in the levy text, the financial plan in Attachment A to the levy (Ordinance 15861) lists provider balances as a designation of fund balance. Note (i) to Attachment A states that the ALS provider balances are funds allocated to specific providers but not yet appropriated. Note (i) further states that these funds are banked for future capital costs, or to cover future collective bargaining obligations. Based on past practice approved by the Executive Office of Management and Budget and incorporation into the EMS Strategic Plan adopted by the Council and various stakeholders, similar accumulations of unspent budget were allowed for Regional Support Services.

Allowing ALS providers to benefit from exercising current fiscal restraint through future budget flexibility provides an incentive to manage their costs. Similarly, it may be wise to allow the EMS Division to accumulate unspent budget authority for use in future years. The EMS Strategic Plan adopted by Ordinance 15740 states that designated reserves (program balances) were added during the 2002 to 2007 levy "to encourage cost efficiencies and allow for variances in expenditure patterns."
The text refers to the use of this practice for both ALS and Regional Support Services. Yet, this practice effectively prohibits these budget savings from being used in the millage reduction reserve required by levy section 13.

EMS Division staff calculated the 2008 Millage Reduction Reserve, for its inclusion in the updated 2009 financial plan, as follows:

Property Taxes	$ 2,386,380
Unfunded Outlying Area Expansion	243,167
Unused ALS Wage Contingency	2,104,452
Replenish Diesel Stabilization Reserve	(171,903)
2008 Millage Reduction Reserve	$ 4,562,096

Since Regional Support Services and Strategic Initiatives are listed in the Attachment A, but otherwise not addressed in notes or other attachments and since they are not mentioned as a millage reduction resource in section 13, they are not included in the calculation of the Millage Reduction Reserve. Except for the replenishment of the Diesel Stabilization Reserve, which is not expressly stated in the levy text but included in footnote (o) of the financial plan attached to the Ordinance 15861, this calculation appears to conform to the levy requirements.

In order to maximize millage reduction opportunities, legal clarification regarding the allowability of costs under the levy and a definition of "full costs" is also required. This is because the full share of general government costs (e.g., overhead) are generally substantially greater than incremental costs. If the King County Council intends to provide for the full costs of ALS services, then full costs should first be defined. Opportunities for millage reduction can be expected to decrease as the full cost of ALS services are more broadly defined.

Opportunities for millage reductions in the remaining years of the current EMS levy are already limited from the original financial plan due to the substantial decline in King County's 2009 Assessed Property Valuations The original financial plan was based on the assumption that the property tax levy will grow at the 1 percent statutory limit because the assumed property assessed valuation increases exceeded 1 percent. However, we obtained preliminary revised assumptions on July 29, 2009 regarding assessed valuation changes from 2009 to 2012 upon which 2010 to 2013 property tax revenues are based. These preliminary assumptions project an assessed valuation decrease of 17.5 percent in 2009 and increases of 0.8 percent, 4 percent and 6 percent in 2010, 2011 and 2012 respectively.

Using the revised preliminary estimates of property tax collections from 2009 to 2013 provided by the Office and Management and Budget on July 29th, we compared the total estimated collections to the property tax revenues contained in the original financial plan. The result is tax collections will be approximately $23 million less than the financial plan. If the Salary and Wage Contingency remain unused and all other aspects of the levy financial plan remain unchanged throughout the levy period, there is no opportunity to build on the 2008 Millage Reduction.

The $23 million estimate does not include unreserved and undesignated fund balance above the 6 percent target minimum. In order to address the estimated property tax collection decrease without reducing the ALS, BLS, Regional Support and Strategic Initiatives, funds will be needed from the restricted Millage Reduction Reserve and ALS Salary and Wage Contingency appropriations. However, this would address only a portion of the property tax decrease. Approximately $4.5 million of undesignated fund balance above the 6 percent target minimum and $2 million of the undesignated fund balance within the 6 percent target will also be needed to avoid direct service reductions. This action would leave fund balance of approximately $1.9 million.

The analysis above also suggests that there is little opportunity to address costs not currently captured in the levy's financial reporting process as discussed in the earlier sections of this report. Unless real estate values rebound more quickly and at greater rates than currently projected, the "full cost" as defined as the ALS full share of the costs of general government overhead, the "normal cost" of providing ALS services that should be fully captured in the standard unit cost model, and the unanticipated costs (or known costs that will either be paid in the future or are difficult to estimate) are not likely to be fully accounted for in the current reserves and designations of fund balance.

Alternatively, program funding cuts could be pursued and the current designations reduced to relieve some of the need to use existing contingencies, reserves and fund balances.

EMS Levy Policy Guidance and Legal Clarification

The financial plan could be improved with better clarity of levy provisions, internal consistency among levy-related documents, and an improved understanding of "allowable" EMS program costs. While the actual costs incurred for unique or future ALS services are not fully funded, costs for the provision of overall program management, strategic initiatives, overhead cost of cities or fire districts providing EMS services and other related (but not specifically listed) costs may be outside the scope of costs specified in Washington State statutes governing EMS services (i.e., RCW 84.52.069). The development of further financial policies, accompanied with a legal review, will help ensure that the levy is not funding potentially unallowable costs.

Levy Section 6 requires that "if approved by the qualified electors of the county, all proceeds of the levy authorized in this ordinance shall be used in accordance with RCW 84.52.069. Subsection (5) of that referenced RCW states:

> *"Any tax imposed under this section shall be used only for the provision of emergency medical care or emergency medical services, including related personnel costs, training for such personnel, and related equipment, supplies, vehicles and structures needed for the provision of emergency medical care or emergency medical services."*

The Medic One/EMS 2008-2013 Strategic Plan includes Regional Support Services and Strategic Initiatives as well as program and administrative support costs for King County EMS and fire department and paramedic providers. Some of these support programs are required by separate RCW or WAC, such as medical direction, quality improvement and training. Other support programs include, for example, centralized data collection and planning, injury prevention, public access defibrillation, and programs designed to manage growth in paramedic responses and to provide timely, efficient, and medically appropriate patient care. These programs, and others, were developed by King County and regional stakeholders as part of the regional strategic planning process for the most recent levy, and are included in the EMS strategic plan adopted by the County Council Ordinance 15740 in April 2007.

According to the EMS Division, inclusion of these support programs reflects long-standing practices in King County since the first EMS levy was passed in 1979. The inclusion of these costs complements or directly supports other program elements and enhances the ability of the regional EMS system to deliver uniform, effective services at the field level within acceptable standards.

However, development of financial policies is needed to provide further guidance as to what costs and programs should be funded by the EMS levy. A legal review of costs allowable under state law should be part of the policy development process to update the financial policies as well. An explicit statement is needed from the Council regarding their intention to fully fund ALS costs, and if so, what the term "full funding" means. The definition should provide sufficient detail to determine whether general government overhead and costs of support activities provided by other government agencies are allowable or not. Similarly, the definition should identify the activities under the Regional Support Services and Strategic Initiative categories that are allowable for levy funding. We emphasize that all of the definitions should be developed in connection with a legal review of costs allowable under state law.

Using the policy definition from the recommendation above, costs could then be screened as to whether they are allowable. The standard unit cost methodology could be updated to include additional costs that are not addressed in the model currently, but are deemed to be normal, ongoing costs of operations. A mechanism could also be developed to account for significant costs which are either unusual in nature or infrequent by establishing reserves. Requests to access the reserves could be included in the next supplemental or annual budget submitted for Council approval and controlled similarly to the existing reserves for unanticipated inflation.

We did not find any levy wording that prohibits the Council from adding reserves to the financial plan, but other provisions may limit the amount of additional reserves. However, as noted in the previous discussion of the Millage Reduction Reserve above, there is little opportunity to address these costs by establishing additional reserves in the near term.

Policy guidance is also important to address current practices, omissions or apparent inconsistencies between levy-related documents. Examples of practices that may not be in compliance with the levy requirements or may not be in accordance with the Council's intent include:

- Regional Support Services (RSS) and Strategic Initiatives (SI) are inflated at different rates than the inflation factor used for determining ALS and BLS cost allocations. The levy text and related levy financial plan attachments are silent as to how RSS or SI costs are inflated, although the EMS Strategic Plan provides direction on inflating both Regional Services and Strategic Initiatives.

- The notes to Attachment A state that various reserves and contingent appropriations, including the reserve for millage reduction, may be used to replenish other reserves. The levy text does not contain a similar statement. If this is the Council's intention, then a statement is needed to that effect. However, care should be exercised so that such a statement of intent does not conflict with the levy sections 9 and 13.

- Allowing ALS providers to "bank" unspent budget to be used in future years should be addressed in policy; specifically, that funds accumulated by ALS providers due to lower than expected expenditures are not meant to be placed in the Millage Reduction Reserve required by levy section 13. Currently, their inclusion as a designation of fund balance in Attachment A as well as the related discussion in note (i) appear to conflict with the requirement in levy section 13.

- Unspent budget for RSS and SI is currently being carried forward to future years as a designation of fund balance. While levy section 13 does not mention cost savings from these activities as a source of funding the Millage Reduction Reserve, policy guidance which confirms this practice is suggested.

Based on the financial review of the EMS levy legal and financial documents, we also identified the following suggestions for the Council's consideration in reviewing and approving a subsequent levy proposal:

- The Disaster Response Contingent Appropriation and the ALS Salary and Wage Contingent appropriation could be reflected as reserves with only annual increases appropriated. As is mentioned in the notes to the financial plan, the ALS Salary and Wage Contingent Appropriation is considered a reserve for unanticipated inflation.

- The requirement restricting the use of the reserves for unanticipated inflation could be more clearly stated, such that the reserves may be used when actual inflation exceeds the relevant inflation or cost index, but only to the extent of the excess of actual inflation over the relevant index. The current wording related to suspending the restriction temporarily by declaration of unexpected inflation by the county executive could be eliminated.

- Options could be identified for the use of reserves and designated fund balances that will be handled in the final levy year (2013). Options could include allowing for their carryover into a subsequent levy period, or their dissolution so that the funds (or a portion thereof) can be used for millage reduction.

- In planning the 2013 levy, a legal review could be performed that would help ensure levy-related documents are internally consistent and provisions are clear. If deemed desirable, reference the financial plan in the levy wording, and include financial projections, higher level of summary data and notes that conform to the levy text as attachments. Allow sufficient time for testing the financial plan to see how it operates in practice by interested parties, such as EMS Division or Council staff, prior to its presentation to the Council.

- If a millage reduction reserve requirement is deemed desirable to include in a future levy, a less self-limiting provision could be considered. If the four components in the current wording are retained, then a supplemental clause could be added indicating "all cost savings to include but not limited to". Alternatively, other potential cost savings such as unspent ALS allocations and RSS and SI program balances could be identified as potential additions to the reserve. Another clause specifying that the calculation of cost savings or excess revenues will be measured on the basis of the original financial plan would also be helpful.

Summary of Financial Plan Recommendations

1. Develop financial policies that provide further guidance concerning what ALS costs the levy should fund. Such policies should explicitly state the King County Council's intentions regarding whether all ALS costs should be fully funded, and if so, define what "full funding" means. The definition of full funding should also be subjected to a legal review of EMS costs allowable under state law, specifically RCW 84.52.069(5).

2. Obtain additional data on actual EMS service costs that were deducted from the billing data by ALS providers due to lack of budget, and costs incurred by ALS providers that are not yet recognized in the budget for use in defining full funding. The definition should provide sufficient detail to determine whether or not general government overhead and costs of support activities provided by other government departments are allowable, as well as the activities under the Regional Support Services and Strategic Initiative categories. Costs deemed to be allowable to support normal, ongoing operations that are not addressed in the current levy period, should be used in developing the standard unit cost during the next levy period's planning activities.

3. Identify and account for unusual or infrequent allowable costs. Costs of substantial value should be accumulated and covered by reserves established for their payment, if any excess funds remain after addressing the currently projected revenue declines. Requests to access the reserves would be included in the next supplemental or annual budget submitted for Council approval and would be controlled similarly to the existing reserves for unanticipated inflation to ensure continued accountability in the use of the levy funds.

4. Enhance the clarity and consistency of levy financial policies and their relationship with supporting attachments to address current practices, omissions or apparent inconsistencies to ensure the EMS levy funds are managed in accordance with the intent of the King County Council. Such revised policies should focus on identifying alternate uses of the existing restricted reserve and fund balances to address the unanticipated economic conditions and the long-term impacts of projected or actual deflation during the six-year levy.

ALS Providers' Internal Control and Contract Compliance

This section of the report addresses the review of the Advanced Life Support (ALS) service contract requirements, including Compensation and Method of Payment; Internal Control and Accounting System; and Equipment Purchases, Maintenance, and Ownership. This includes an internal control review of the King County (KC) Emergency Medical Services (EMS) program to identify the existing controls, and an evaluation of the effectiveness of the controls for five ALS EMS providers and the performance of substantive tests.

Conclusion

The ALS providers have established accounting systems and internal controls sufficient to manage the King County ALS contracts and are substantially in compliance with the ALS Contract Section IV. The Division has also established and maintained a system of internal controls sufficient to properly monitor the ALS contracts. In addition, the budgets for ALS providers are set within the EMS levy financial plan, and billings from ALS providers are reviewed against established budgets. The EMS Division also provides for interaction among ALS contractors to provide some consistency in accounting and billing practices through frequent ALS Working Group meetings. The EMS Division also interacts with ALS providers when issues are encountered to provide advice on the proper resolution of issues.

Improvements are needed to clarify contract requirements, strengthen accounting period cutoff controls, define allocations and overhead charges, and enhance selected ALS provider accounting and internal control processes.

Review of ALS Internal Controls and Contract Compliance

ALS Providers Accounting System and Internal Controls

The ALS providers maintain accounting systems and related internal controls sufficient to properly manage the financial aspects of their King County contracts. The ALS providers also substantially comply with the 2008 ALS service contract requirements, including the provisions related to: Compensation and Method of Payment; Internal Control and Accounting System; and Equipment Purchases, Maintenance, and Ownership.

As is more fully described in the Introduction Section of this report and in Appendix F, we obtained systems' descriptions and interviewed staff regarding the internal controls. We tested key common control attributes which exist at each ALS provider and found them to be operating as described within acceptable precision levels. We also documented the key controls used by the KC EMS Division staff in monitoring the ALS provider's billings and budget monitoring.

As a result of our procedures, we are able to conclude that there are sufficient controls to manage the ALS contracts. The following chart provides a summary of the ALS provider's compliance with effective internal standards and practices and with the ALS contract provisions. The checkmarks indicate the ALS provider's compliance with the standards and contracts.

Exhibit 7: Summary of ALS Internal Controls and ALS Contract Compliance

EMS Program Participant	Contract Management	Contract Billings	Payroll	Cash Disbursements	Equipment
ALS Provider 1	NA	NA	✓	✓	✓
ALS Provider 2	✓	✓—	✓	✓	✓
ALS Provider 3	✓	✓—	✓	✓	✓
ALS Provider 4	✓	✓—	✓	✓	✓
ALS Provider 5	✓	✓—	✓	✓	✓

Legend: ✓ = Complied ✓— = Complied with Minor Exceptions NA=Not Applicable

EMS Division Internal Controls and Contract Management

The EMS Division uses appropriate management controls and processes to provide proper overall program financial management. The King County EMS Division has also established and maintained a system of internal controls sufficient to properly monitor the ALS contracts. Annual budgets for ALS providers are set within the EMS levy financial plan, and billings from ALS providers are reviewed against established budgets. The EMS Division also provides for interaction among ALS contractors to promote consistency in accounting and billing practices through frequent ALS Working Group meetings and advises on the proper resolution of issues relevant to the EMS Levy program.

We have identified areas that can be improved from better clarity of contract requirements, better accounting period cutoff controls, improved definitions of allocations and overhead charges, and selected changes to individual ALS provider accounting and internal control processes. The issues identified adversely affect the accuracy of reported costs, the ability to plan and manage the EMS program as a whole and the usefulness of the standard unit cost methodology. Strengthening the internal controls to ensure contractual clarity, uniformity of costs and guidance regarding adequate documentation and full reporting of all costs associated with the program will promote accountability and transparency for the EMS levy program. While we explored the feasibility of each recommendation with the ALS providers and the KC EMS Division staff, some of the recommendations deserve further analysis as to their feasibility or ease in implementation.

The EMS Division and ALS providers have not clearly communicated on contract issues and practices that could facilitate financial oversight of the EMS Levy program. Better clarity of ALS contracts is necessary to ensure consistency between contractual requirements and standard ALS provider practices.

Guidance for Year-End Financial Close-Out Procedures

Guidance for proper year-end financial close-out procedures is required for ALS providers. Because of the EMS Division requirement to provide an estimate of the year end billing by the 10th of January, all ALS providers interpreted this requirement as a final partial bill instead of an estimate. Adjustments are required to the final year-end contracting process to better recognize the full costs of providing ALS services.

Allowing for the use of estimates of year end contract costs without a contract billing form could be as simple as the form shown here:

Total Contact Costs through November 30th

Estimated Contract Costs through December 31st

Total Estimated Contract Costs through December 31st

Total Budget through December 31st

Amount Added to ALS Provider Reserves

The final billing could then be provided by January 30, which will require each ALS contractor to provide a full accrual billing of its final costs.

Almost all ALS providers do not include its final semi-monthly payroll in its preliminary billing due to cutoff issues. If all ALS providers bill the EMS Division for all costs using a full accrual basis of accounting, KC EMS would have the necessary information to assess the full costs of providing ALS services in the period that costs are incurred.

In addition to accruing costs related to the last part of December, ALS providers need to accrue costs that are incurred during the contract period, even if those costs will not be paid until a later contract period. Examples of such costs are the conversion of paramedics from PERS to LEOFF II and unanticipated labor arbitration proceedings, which may result in a retroactive wage adjustment and related payments.

Financial oversight of the EMS Levy could also be improved if costs for each year within the levy program, and especially between different levies, were reported in the corresponding levy period. Overlaps between years and between levies should be discontinued.

ALS Contract Improvements

Section III A of the contract discusses compensation. This contract section states *"The Contractor may bill up to the full amount of the* ***annual amendment*** *at any time during the* ***specified amendment year*** *if it can certify and document that its total expenditures have equaled or exceeded the full amount of the amendment"* (emphasis added). This contract language could be improved if this clause stated that the contractor may bill up to the total annual contract amount including any amendments, if any, during the annual contract period.

Section III D of the contract discusses the level at which the contract variances must be approved, but it is not sufficiently detailed to provide guidance as to whether this

10 percent variance is on a total contract basis or each individual line item in the contract Exhibit.

Section XVII Equipment Purchase, Maintenance, and Ownership required additional clarification regarding several aspects of equipment management. In addition to the requirement to use KC Asset Tags (which no ALS provider except for KCM1 is using), the requirement to return the equipment to KC at Contract Termination needs clarification. Currently the equipment is not being returned at the end of the contract but is continuing in use in subsequent contracts.

The contract language could be modified to provide ALS providers flexibility in managing equipment. For example, the contract could provide for the continued use of equipment beyond the contract term as long as the contractor remains an ALS provider. The contract could also provide that, with prior approval from KC EMS Division staff, an apparatus can be used as a trade-in for new apparatus purchases, could be sold to another ALS or Basic Life Support (BLS) provider within the KC EMS system, or be sold to a third party with the proceeds of such sale applied to the ALS program. In addition, the contract could provide direction as to the disposition of other equipment costing more than $5,000, such as life packs, mobile data computers or radio equipment. The ability to use such equipment as trade-ins, for surplus, to be sold with funds retained in the ALS program, or be transferred to other city departments when there is no trade-in or sale value could be specified in the contract.

Documentation of Indirect or Overhead Charges

Better justification and documentation of indirect or overhead charges is needed for EMS Division management. ALS providers charge the EMS levy with overhead, indirect charges, internal service fund charges or an allocation of overhead type items in its direct charge categories. While we found that most ALS providers make an effort to allocate costs in a fair and equitable manner, the documentation for such allocations is not sufficiently detailed to support these allocations.

If overhead items or splits of direct costs are allowed under the interpretation of RCW 84.52.069, then each ALS provider should supply a justification of its indirect costs or splits of direct costs to EMS Division management so that the allocations can be reviewed for acceptability and approved in the billing process.

Communication of Actual Cost of ALS Services

Not all ALS providers formally reported actual costs incurred to EMS Division management due to ALS contract budget limitations. In some cases, these were routine ALS provider costs. In other cases, the ALS provider costs were either unusual in nature or infrequent, but not currently recognized in the ALS providers' accounting records. These issues adversely affect the accuracy of reported costs, the ability to plan and manage the EMS program as a whole, and the usefulness of the standard unit cost methodology.

In order to determine whether the standard unit cost methodology is functioning appropriately, EMS Division management needs accurate and appropriate cost information for the program. ALS providers need to communicate their actual costs of providing ALS services to EMS Division management. Such communication could be accomplished in the current contract billing process or in another form of communication.

Currently, each ALS provider (except for KCM1 that does not submit bills) has a unique way of reducing its costs in preparing and presenting its required budget to actual billing form. For example, one ALS provider estimates its split of ALS staff's efforts between ALS activities and other activities, such as fire suppression, at the beginning of the year. For 2008 the actual effort was more than the pre-established splits, resulting in an under reporting of ALS costs. In addition, the same ALS provider reduces the general government cost allocation charged to the program. Another ALS provider does not report all of its costs (e.g. benefits and dispatch fees) due to budget limitations, and reduces its overhead charge based on its plan (which is not sufficiently documented) to fit in with its budget. A third ALS provider did not bill all of its ALS costs because its billing process did not capture all related costs.

All of these practices adversely affect the accuracy of reported costs and the usefulness of the standard unit cost methodology.

During our review of the ALS contracts and internal controls, we also identified contract or internal control issues that were specific to individual ALS providers. Additional recommendations for the respective ALS provider are identified in Appendix E to this report.

EMS Levy Internal Control and Compliance Recommendations

1. The actual cost of ALS services should be communicated to EMS Division management in order to determine whether the cost model is functioning appropriately. Consistent with the financial plan recommendations, the unit cost methodology for allocating levy funds to ALS providers should be continued, but based on improved definitions of "normal" costs. Such information should include known costs, both actual service costs that were deducted from the billing data by ALS providers due to lack of budget, and costs incurred by ALS providers that are not yet recognized in the budget.

2. The EMS Division and ALS providers should improve financial oversight of the EMS Levy program through better clarity of contract requirements, development of procedures and definitions related to accounting period cutoff control, allocations and overhead charges, and selected changes to individual ALS provider accounting and internal control processes.

3. The EMS Division should explore the feasibility of implementing the recommendations contained in Appendix E. with each of the appropriate ALS providers to strengthen internal controls, ensure full reporting of all costs, and promote transparency and accountability in the use of EMS levy funding.

Appendix A: Comparison of Financial Plan to Actual 2008 Financial Results

	2008 Proposed (15861)	Difference	2008 Adopted Budget with Amendments	Difference	2008 Actual
BEGINNING FUND BALANCE	$ 6,070,111	$ -	$ 6,070,111	$ 172,685	$ 6,242,796
REVENUES					
Property Taxes	$ 62,349,590	$ (1,363,875)	$ 60,985,715	$ 3,750,254	$ 64,735,969
Grants	-	-	-	29,526	29,526
Intergovernmental Payment	-	-	-	-	-
Charges for Services	52,000	-	52,000	144,351	196,351
Interest Earnings/Miscellaneous Revenue	306,541	-	306,541	252,101	558,642
Other Financing Sources	4,503	-	4,503	49,659	54,162
Transfer from Current Expense Sub-fund	375,000	-	375,000	-	375,000
EMS REVENUE TOTAL	$ 63,087,634	$ (1,363,875)	$ 61,723,759	$ 4,225,892	$ 65,949,651
EXPENDITURES					
Advanced Life Support Services	$ (34,558,361)	$ (324,012)	$ (34,882,373)	$ 2,296,745	$ (32,585,628)
Bellevue Fire Department	(7,368,004)	-	(7,368,004)	800,343	(6,567,661)
King County Medic One	(14,080,283)	(19,780)	(14,100,063)	841,707	(13,258,356)
Redmond Fire Department	(5,345,018)	(547,397)	(5,892,415)	429,482	(5,462,933)
Shoreline Fire Department	(4,840,864)	(907,464)	(5,748,328)	2	(5,748,326)
Skykomish/King County Fire District 50	(170,058)	-	(170,058)	58	(170,000)
Vashon Fire Department	(1,603,505)	-	(1,603,505)	225,152	(1,378,353)
New Units/Unallocated	(907,463)	907,463	-	-	-
ALS Outlying Area Service Levels	(243,167)	243,167	-	-	-
Basic Life Support Services	(14,390,254)	-	(14,390,254)	133,914	(14,256,340)
Regional Services	(6,102,144)	(237,457)	(6,339,601)	1,045,530	(5,294,071)
Strategic Initiatives	(1,246,580)	(115,000)	(1,361,580)	770,374	(591,206)
Total Expenditures	(56,297,339)	(676,469)	(56,973,808)	4,246,563	(52,727,245)
Total Excess of Revenues Over Expenditures	6,790,295	(2,040,344)	4,749,951	8,472,455	13,222,406
Other Items Affecting Fund Balance					
EMS Budget Contingency	-	(566,717)	(566,717)	566,717	-
ALS Salary and Wage Contingency	(2,104,452)	0	(2,104,452)	2,104,452	-
Disaster Response Contingency	(3,216,379)	0	(3,216,379)	3,216,379	-
King County Auditor's Office	(61,000)	-	(61,000)	61,000	-
GAAP Adjustment	-	-		224,200	224,200

	2008 Proposed (15861)	Difference	2008 Adopted Budget with Amendments	Difference	2008 Actual
Taxes in FP (not in budget)	-	1,363,875	1,363,875	(1,363,875)	
Other		-		(3,391)	(3,391)
Subtotal	(5,381,831)	797,158	(4,584,673)	4,805,482	220,809
ENDING FUND BALANCE	$ 7,478,575	$ (1,243,186)	$ 6,235,389	$ 13,450,622	$ 19,686,011
RESERVES AND DESIGNATIONS					
Encumbrances	$ (977,521)	$ 977,521	$ -	$ (2,138,516)	$ (2,138,516)
Re-appropriation	(25,000)	25,000	-	-	-
Designations					
Provider/Program Balances	(1,022,900)	695,786	(327,114)	(1,854,304)	(1,335,594)
KCM1 Equipment Replacement	-	-		(769,910)	(769,910)
Designations from 2002-2007 Levy	-	-	-	(839,773)	(839,773)
Reserves for Unanticipated Inflation					
Diesel Cost Stabilization	(756,000)	-	(756,000)	-	(756,000)
Pharmaceuticals/Medical Equipment	(230,000)	-	(230,000)	-	(230,000)
Call Volume/Utilization Reserve	(244,000)	-	(244,000)	-	(244,000)
Reserves					
Chassis Obsolescence	(375,000)	-	(375,000)	-	(375,000)
Risk Abatement	-	-	-	-	-
Millage Reduction	-	-	-	(4,562,096)	(4,562,096)
TOTAL RESERVES AND DESIGNATIONS	$ (3,630,421)	$ 1,698,307	$ (1,932,114)	$(9,318,775)	$ (11,250,889)
ENDING UNDESIGNATED FUND BALANCE	$ 3,848,154	$ 455,121	$ 4,303,275	$ 4,131,847	$ 8,435,122
Fund Balance as % of Revenue	6.10%	0.87%	6.97%	5.83%	12.80%
EXCESS OVER/UNDER 6% MINIMUM	$ 62,896	$ 536,954	$ 599,850	$ 3,878,293	$ 4,478,143

Appendix B: Financial Plan Design

Financial Plan Design

Our assessment of the adequacy of model assumptions, inflationary factors, reserves, and other variables is based on the following discussion of assumptions and reserves when viewed in relation to the sensitivity analysis provided in Appendix C, under the Roles of Revenue and Cost Drivers portion.

Assumptions and Reserves

We reviewed the major assumptions used in the financial plan against original assumptions and reviewed forecast assumptions to recent trends. The current set of assumptions, in relation to the established reserves for unanticipated inflation, appears adequate to provide for funding in the near term.

Property tax revenues and inflation are the two most significant drivers of the EMS Levy Financial Plan. By far, property tax revenue is the most significant; with each 1 percent change representing approximately $650,000 in levy tax revenues. The original financial plan was based on the assumption that the property tax levy will grow at the 1 percent statutory limit because the assumed property assessed valuation increases exceeded 1 percent. However, we obtained preliminary revised assumptions regarding assessed valuation changes from 2009 to 2012 upon which 2010 to 2013 property tax revenues are based. These preliminary assumptions project an assessed valuation decrease of 17.5 percent in 2009 and increases of 0.8 percent, 4 percent and 6 percent in 2010, 2011 and 2012 respectively.

In 2008, property tax revenues collected were consistent with the financial plan projections and sufficient to cover estimated costs. Assessed valuation decreases of 17 to 18 percent for 2009, however, can be expected to result in a corresponding decline in property tax revenues in 2010 and the remaining years of the EMS levy. Using the revised preliminary estimates of property tax collections from 2009 to 2013, we compared the total estimated collections to the property tax revenues contained in the original financial plan. The result is that, if current estimates of tax collections are realized, then tax collections will be approximately $23 million less than the financial plan. The currently calculated millage reduction reserve reflected in Appendix C is sufficient to cover only a 7 percent decrease in property tax collections, although it is not intended to be used for this purpose. Modification of the financial plan and revenue assumptions is needed to address this revenue reduction issue.

Based upon the sensitivity analysis discussed in Appendix C, CPI plays a much larger role than the other inflators used in the financial plan. Inflation assumptions directly affect the contract values for ALS and BLS. Lower inflation assumptions decrease contract values while higher assumptions increase contract values in the ensuing year. In order to access the ALS Salary and Wage Contingent Appropriation, however, actual CPI needs to exceed the pre-established thresholds contained in the adopted levy. Given current assumptions, this is not likely to occur in the near future. To the extent that actual CPI exceeds assumed levels, the contract values in the ensuing year will increase more than provided for in the future year(s) of the financial plan. Furthermore, as discussed in Appendix C, the Diesel Stabilization Reserve and the Pharmaceuticals/Medical Equipment Reserve appear adequate to cover extraordinary price level volatility.

The use of regression analysis (the Excel FORECAST function) to predict future inflation is not advisable; however, it serves as a useful tool to identify which King County projections are significantly different than historical three year trends would suggest. The results of the comparison of the regression analysis to the King County projections indicate that the CPI projection is much less than the three year trend (2006-2008) would suggest. The King County Economist indicated his projection of -0.10 CPI for 2009 and assumptions regarding fuel prices for the remainder of the year continue to be reasonable based on recent data. However, because drug price increases decreased from a very high level in 2006 to lower rates of increase in 2007 and 2008, the regression analysis predicts drug prices will decrease in 2010 to 2012. We question whether our analysis produces a reasonable result. The King County assumption keeps the assumed drug increases at the original projection of 11.80 percent. This projection is conservative and is more reasonable than assuming drug prices will decrease in 2010 to 2012. The King County Economist indicated that although the price increase for 2008 was only 6.94 percent, the rate of increase was accelerating during the last part of 2008. As such, he wanted to keep the assumption for drug prices at 11.80 percent. Diesel cost projections are obtained from the Energy Information Administration (EIA). We noted that the King County projections are slightly less than the amounts we obtained from the EIA.

The current set of assumptions, in relation to the established reserves for unanticipated inflation, appears adequate to provide for funding in the near term.

While not a reserve, the financial plan provides for the "contingent appropriation for disaster response" as required by section 8 of the levy. The amount reflected in the financial plan approximates the overtime charges for labor costs (about 80 percent of total budget expenditures) for a three week time frame. To the extent that this contingent appropriation includes labor costs associated with Regional Support Services and Strategic Initiatives, it likely has a cushion over what actual costs would be. In order to accomplish this extra level of effort the paramedics would need to work nearly 14 hours a day for three weeks straight unless medical service officers and supervisors step in to provide partial relief. Since this item is specifically referred to as a "contingent appropriation" in the levy text, we cannot recommend that this item be handled through the use of reserves. However, for the 2013 levy planning purposes this item could be treated as a reserve with the same controls over its use as is currently provided.

Another "variable" that is not considered an assumption is the unit cost methodology employed to allocate the ALS budget to specific providers. There is some degree of confusion and uncertainty regarding how unanticipated costs should be handled under the contract. Examples include: the results of labor contract arbitration proceedings which require a retroactive wage adjustment from services rendered in a prior contract year, increased insurance cost allocations from a self-insured internal service fund resulting from large unanticipated claims, unrecorded liabilities such as unfunded OPEB, etc. King County has a unique situation that resulted from a 2005 change in the state law allowing ALS staff in PERS to convert to LEOFF II. It is estimated that this unfunded liability from the LEOFF II conversions will be approximately $4 million to be paid in 2012.

We support the standard unit cost methodology for allocating ALS funds to ALS service providers. However, the inherent limitations of such a methodology should be understood, and the limitations should be addressed by additional financial policies for reserves and designation of the EMS levy fund balances. In connection with our themes to better define the full cost of ALS services and to fully report ALS costs, the "normal cost" of providing ALS services should be provided for in the standard unit cost, and unanticipated costs (or known costs that will either be paid in the future or are difficult to estimate) should be provided for in reserves and designations of fund balance.

Some ALS providers point out other limitations to the standard unit cost methodology. Such limitations relate to differences in cost structures between ALS providers, which are minimized in the averaging process. ALS providers with higher labor costs, more burdensome general government overhead charges, external space leasing costs and higher levels of internal service fund charges feel that the standard unit cost methodology places more budget burden on their operations than ALS providers with a lower cost structure.

As discussed in the ALS providers' Internal Control and Contract Compliance section of this report, actual ALS costs are not fully communicated to the EMS Division. In addition, the contract charges for overhead and indirect costs are not sufficiently documented to justify the charges made. Until actual costs are better defined and communicated, it is difficult to assess the level of disparity between high cost and low cost ALS providers inherent in the standard unit cost methodology used to allocate ALS funds to ALS service providers.

Appendix C: King County Ordinance 15862 Requirements

King County Ordinance 15862 includes the following language:

> *"**Section 1. EMS financial audit.** The county auditor shall conduct an annual audit of the county programs funded by this levy, comparing actual revenues, expenditures and reserves to those amounts specifically identified in the financial plan adopted by the council each year during the budget process including the roles of: inflation; population growth; call volume; labor agreements and new labor costs; fuel expenses; vehicle maintenance and replacements; and the regional subsidy needed for the local basic life safety program in support of emergency medical services ("EMS")."*

This work focuses on our contractual requirements. As such, this project is not designed to address the adequacy of the BLS subsidy, included as the last portion of King County Ordinance 15862.

Review of Financial Plan against 2008 Actual Results

Appendix A provides a comparison of actual revenues, expenditures and reserves to those amounts specifically identified in the financial plan adopted by the Council and the report discusses the analysis of the differences.

Roles of Revenue and Cost Drivers Listed in Ordinance 15862

In order to address this requirement, we performed a sensitivity analysis of selected financial plan cost drivers, linked to specified inflators to determine their relative significance and the adequacy of related reserves. The sensitivity analysis presented in the following chart calculates the impact of a 1 percent change in the major categories of revenues and expenses.

Property Taxes

By far, the assumptions related to property tax revenues are the most significant, with each 1 percent change in value approximating $650,000 in levy tax revenues. As discussed in Appendix B, the original financial plan was based on the assumption that the property tax levy will grow at the 1 percent statutory limit because the assumed property assessed valuation increases exceeded 1 percent.

However, we obtained preliminary revised assumptions regarding assessed property valuation changes from 2009 to 2012 upon which 2010 to 2013 property tax revenues are based. These preliminary assumptions project an assessed valuation decrease of 17.5 percent in 2009 and increases of 0.8 percent, 4 percent and 6 percent in 2010, 2011 and 2012 respectively. If current estimates of tax collections are realized, then tax collections will be approximately $23 million less than the financial plan. The currently calculated millage reduction reserve reflected in the second chart below is sufficient to cover a 7 percent decrease in property tax collections, although it was not intended to be used for this purpose.

Effect of a one percent change in selected EMS costs:

	2008 Proposed Plan Values	Inflator	Effect of 1% Change
Property Tax Revenues	$ 64,735,969	N/A	$ 650,000
Advanced Life Support Services			
Salary and Wages including overtime	20,893,413	CPI+1%	208,934
Benefits	5,525,805	Various	55,258
Medical Supplies and Equipment	941,934	Pharm/Drug	9,419
Vehicle Maintenance Costs	558,877	Vehicle Costs	5,589
Diesel Costs	204,341	Diesel Costs	2,043
All Other Operating Costs	1,954,513	CPI	19,545
Indirect/Overhead Costs	1,626,074	CPI+1%	16,261
ALS Operational Total	31,704,957		317,049
ALS Capital	1,471,582	Vehicle Costs	14,716
Other ALS Costs	1,381,823	N/A	-
Total ALS Allocation	34,558,362		331,765
Basic Life Support Services	14,390,254	CPI	143,903
Regional Services	6,102,144	Various	61,021
Strategic Initiatives	1,246,580	Various	12,466
Total EMS Costs	$ 56,297,340		$ 549,155

Relationship of Selected Costs to Reserve Balances:

Using the amounts calculated above, the specified reserves are viewed in relation to the percentage change that the reserve represents as follows.

	2008 Actual	Related Revenue/Cost	Percent of Cost Increase Covered
Reserves			
Encumbrances	$2,138,516	Not Available	
Diesel Cost Stabilization	756,000	Diesel Costs	370%
Pharmaceuticals/ Medical Equipment	230,000	Medical Supplies and Equipment	24%
Call Volume/Utilization Reserve	244,000	Not tied to specific cost	
Chassis Obsolescence	375,000	ALS Capital Costs	25%
Millage Reduction	4,562,096	Property Tax	7%
DESIGNATIONS	2,939,957	Not Available	
UNDESIGNATED FUND BALANCE	8,435,122		
TOTAL ENDING FUND BALANCE	$19,686,011		
Contingent Appropriation-ALS Salary and Wage Contingency	$2,104,452	ALS Salary and Wages, Benefits	8%

As reflected in this chart, reserves for encumbrances and designations of fund balance are not available to fund future unanticipated inflation.

Inflation

Inflation is the most significant financial driver after property taxes. It affects projections of Salaries and Wages and Indirect/Overhead costs at the linked inflator of CPI plus 1 percent. A 1 percent increase in CPI causes ALS salaries and wages to increase approximately $209,000. The current Contingent Appropriation-ALS Salary and Wage Contingency is sufficient to cover an 8 percent increase in CPI over the amounts contained in the financial plan.

Inflation also affects the other cost categories, some using different measures of inflation, but all with much lower individual significance to the overall financial plan. Other than Diesel and Pharmaceuticals/Medical Equipment, there are no specified reserves for unanticipated inflation. The lack of reserves for other types of unanticipated inflation is not considered a significant risk to the overall financial management of the levy program because of three main reasons. First, assumed inflators for employee benefits are more than recent experience (11 percent is used for medical benefits from 2010 through 2013, while actual experience ranges from 3.97 percent in 2007 to 5.02 percent in 2008). Second, CPI assumptions appear reasonable given the current inflation outlook and, except for 2010; vehicle costs are inflated at rates above CPI. Third, the values are insignificant in relation to the other major business drivers.

The Diesel Cost Stabilization Reserve is sufficient to cover an increase of 370 percent, which is substantially more than the increase of 36 percent experienced from 2007 to 2008. This reserve also builds each year through 2012. The Pharmaceuticals/Medical Equipment Reserve is sufficient to cover a 24 percent increase in related medical supplies over the amounts contained in the financial plan, which are already assumed to inflate at nearly 12 percent per year. This reserve also builds through 2011 with draw downs in the final two years of the levy.

CPI is used to determine the annual change in the BLS allocation. The BLS allocation is significant to the financial plan, but there is no specified reserve to address unanticipated inflation for the BLS allocation.

While inflation plays an important role in the financial plan, the assumptions used to project costs in future years, combined with established reserves, are likely adequate to offset financial risks due to inflationary increases.

Population Growth

Population growth has no role in the financial plan, but does affect the operations of ALS or BLS service providers to the extent that populations shift to locations further away from existing ALS/BLS provider sites. To the extent that population growth affects call volumes, it is addressed in the following discussion.

Call Volume

Call volumes have a very minor role in the financial plan. First, call volumes are one of two factors that determine the increase in annual allocations to individual BLS providers (along with assessed valuations as the other factor). The overall BLS allocation increase is limited to the actual CPI change from the preceding year. Second, the reserve shown for call volumes in the 2008 financial plan is only $244,000. However, this reserve is not linked to any specified cost and may only be accessed when actual call volumes exceed the established threshold of 1.6 percent per year.

Labor Agreements and New Labor Costs

Labor agreements do not have a direct role in the financial plan because salaries and wage growth are projected to increase at CPI plus 1 percent, and the salary and wage contingency can only be accessed when CPI exceeds established thresholds. However, labor agreements directly affect the labor costs incurred by the ALS providers and indirectly affect the calculated labor costs in the ALS unit allocation. The ALS unit allocation assumes salary and wage growth based upon CPI plus 1percent. The unit allocation does not anticipate labor negotiations or arbitration results that may provide for a retroactive wage adjustment related to years prior to the levy or years prior to the settlement date, but which are within the levy period.

Currently the King County Economist has projected wage inflation for 2009 at 0.90 percent (CPI -0.10 percent plus 1 percent). Labor agreements are typically multi-year and they may have established floors (e.g., 2 percent) even when tied to CPI. As a result, the 2010 ALS contracts may not contain sufficient funds for the ALS providers to fully cover labor costs. The ALS Salary and Wage Contingency can only be accessed when CPI exceeds established thresholds based on current levy policy. When CPI is low or negative, the thresholds will not be reached, and therefore, cannot be used to address the funding gap caused by variances between CPI and labor agreements. While there is no currently established reserve that can be readily accessed for this situation, there does not appear to be any prohibition to using any excess of unreserved and undesignated fund balance which exceeds the six percent target referenced in levy section 11 for this purpose. The county will be required to consider mechanisms available within the levy constraints to address this issue for the 2010 levy period.

Fuel Expenses

Fuel costs contained in the financial plan for 2008 are approximately $204,000. As previously discussed, the Diesel Cost Stabilization Reserve is more than adequate to cover extreme oil price fluctuations. It should be noted that fuel costs are inflated using the vehicle cost inflator and not the diesel price inflator used for the stabilization reserve. The combination of the vehicle cost inflator to project future fuel costs and the Diesel Cost Stabilization Reserve is adequate to address significant fuel price fluctuations.

Vehicle Maintenance and Replacements

Both the vehicle maintenance costs ($559,000) and the capital allocation ($1,472,000) are projected to future years using a specific vehicle cost inflator of annual change in overall transportation cost adjusted by average fuel costs. In addition, approximately $900,000 of the "Other ALS Costs" reflected in the sensitivity chart for 2008 relates to the equipment transition plan and affects the new unit and new unit startup calculations. As such, equipment maintenance and replacements (including new units for service expansion) play a significant role in the financial plan. All equipment related costs use the specific inflator described above. The vehicle cost inflator should be sufficient given current automobile-specific cost changes.

Regional Subsidy for the Local Basic Life Safety Program in Support of Emergency Medical Services

The BLS allocation is approximately 25 percent of the total EMS Costs. In accordance with the financial plan, the BLS provider allocation was increased 45 percent over the reported 2007 baseline expenditures to address the BLS community's needs. Annual increases in the BLS allocation are linked to the preceding annual change in CPI. Allocations to individual BLS providers are based almost entirely on the amount of the 2007 payments increased by the 45 percent policy additions included in the levy financial plan. Each year the total BLS allocation increase is calculated based on the preceding annual change in CPI. The increase is then allocated among individual BLS providers based one-half on the assessed valuations in their service area and one-half on their percentage of call volumes to the total call volumes. The degree to which the EMS levy should subsidize BLS activities as opposed to its funding from other fire district or fire department funding is a policy issue and is beyond the scope of this project.

We reviewed the 2009 BLS allocation to individual BLS providers noting that the 2008 baseline was approximately $18,000 more than the adopted budget due to the reconciliation from the prior year's budget to actual and that a CPI inflator assumed a 5 percent increase in CPI versus the actual CPI increase of 4.2 percent. Actual inflation is not known until after BLS contracts are issued.

Appendix D: Levy Construct Issues

We noted several issues regarding the financial plan in relation to the levy requirements. Two basic questions involved whether the financial plan could change over time or whether the amounts, presented in Attachments referenced in the levy and available to voters, must remain static and the relative priority of levy-related documents when conflicts between such documents appeared to exist. We were able to obtain sufficient legal guidance to answer these two basic questions. This project's work and conclusions are based on the following guidance:

- There are sufficient references to the *proposed* financial plan (see section 11 and column headings in Attachment A) and annual budget for the emergency medical services fund that indicate that the financial plan is a guide, financial structure, etc., and therefore, the amounts included in Attachment A are not fixed. This allows for changes to be made in the financial plan and model as long as it is consistent with the levy text.

- There is a priority of related levy documents. The levy title and wording (levy text) in the voters' pamphlet carries more weight than information that is available to the voters. As such, if there is a clear conflict between the levy text and other supporting information, the levy text would control.

These facts have a pervasive effect on our analysis, conclusions and recommendations.

King County Ordinance 15861 and 15862 were both passed on July 2, 2007 and both had financial plans attached, but the financial plans are not the same. Under normal circumstances one would assume that the later ordinance (15862) would supersede the prior ordinance (15861). However, in this case, since the financial plan attached to 15861 was the ordinance presented to voters, it has priority over the 15862 financial plan attachment. As such, for the purposes of this project, we have ignored the 15862 financial plan. The following discusses issues with the construction of the levy documents and is organized by levy section.

Section 6 requires that "if approved by the qualified electors of the county, all proceeds of the levy authorized in this ordinance shall be used in accordance with RCW 84.52.069. Subsection (5) of that referenced RCW states:

> *"Any tax imposed under this section shall be used only for the provision of emergency medical care or emergency medical services, including related personnel costs, training for such personnel, and related equipment, supplies, vehicles and structures needed for the provision of emergency medical care or emergency medical services."*

Costs for the provision of overall program management, strategic initiatives, overhead cost of cities or fire districts providing EMS services and other related (but not specifically listed) costs may not be included in the statutory provision quoted above. This issue is one of legal interpretation. As such, we cannot conclude as to whether all of the activities funded by the levy are in conformity with section 6 of the levy. By necessity, we have assumed that the costs of all activities are allowable for the purpose of conducting this project.

Section 9 requires the establishment of a reserve for unanticipated inflation. The financial plan complies with this section in that "Each designated reserve shall be described in the financial plan and must clearly identify the relevant inflation or cost index linked to its expenditure." There are three reserves for unanticipated inflation listed in Attachment A and described in the notes (j), (k) and (l) to Attachment A. In addition, the inflation or cost index is provided in Attachment B to the financial plan ordinance 15861.

We noted that Attachment B also includes inflation assumptions for the "ALS Salary and Wage Contingency", which is not treated as a reserve or designation but is listed as a contingent appropriation under the expenditure category, and is only referred to in section 13 regarding the reserve for millage reduction. Note (e) to Attachment A states that the *"ALS Salary and Wage contingency is considered a reserve under the restrictions of sections 10 and 11 of the Medic One emergency services levy ordinance"*. We believe the restrictions related to reserves are listed in section 9 and section 10, but not section 11. The reason why the ALS Salary and Wage Contingency is included as an expenditure, as opposed to an additional reserve for unanticipated inflation, is unclear. However it is clear from the levy text that this contingency is not a reserve because it is not listed as such in the financial plan, and any annual unused amounts are swept into the millage reduction reserve (while the other three specified reserves are not).

Section 11 states the Council's intention that the financial plan and annual budgets will provide for an undesignated fund balance equal to six percent of that year's adopted revenue. The revised financial plan shows undesignated fund balance planned at much higher levels. An interesting point is that this section implies that the intention is to have an undesignated fund balance **EQUAL** to 6 percent of revenues, no more, no less. We base this conclusion on the omission of wording similar to "at least 6 percent". When section 11 is read in connection with section 12, which limits the growth in program cost allocations, and section 13, which sweeps any gains in the program into a millage reduction reserve, it appears that the Council's intention is to place a floor on undesignated fund balance and not to place a ceiling, which is consistent with the Attachment A label of the final row: "Excess Over/Under 6% Minimum".

Section 12 requires the ALS and BLS cost allocations to be made in accordance with the baseline costs and inflation assumptions contained in Attachment C, but those allocations will be adjusted based on actual inflation in the preceding year. This adjustment provision creates some confusion in interpreting section 13 discussed below.

Section 13 requires the establishment of a millage reduction reserve where program gains are accumulated and used to reduce future property tax levies. This section raises a question as to whether the financial plan can change from year to year or whether it must remain static. In order to determine whether actual financial performance is better than the plan, the budget must remain fixed. Otherwise, if the plan is always updated to actual there will never be a significant difference. However, as mentioned under the discussion of section 12, the program cost allocations are adjusted based on actual inflation in the preceding year. As such, at least this piece is expected to change from year to year. Section 13 specifies four components to accumulating a millage reduction reserve as follows:

1. Funds for millage reduction in the adopted EMS levy financial plan. These amounts begin with $1 million in 2010 and increase by $500,000 every year until it reaches $2.5 million in 2013.

2. Any property taxes collected annually in excess of the amounts in the EMS levy financial plan. The plan is updated annually. As such, the estimated property taxes for the next year should be close to the actual collections with only minor variances.
3. Any surpluses resulting from lower than expected expenditures under section 12 and Attachment C. As previously noted, program allocations are adjusted annually by actual inflation for the preceding year. It is difficult to imagine a situation in which this portion of the section would be applicable.
4. Any unused salary and wage contingency funds for each year in which inflation is equal to or less than the thresholds contained in Attachment B. This is the only section that discusses a salary and wage contingency except that amounts are listed as a contingent appropriation in the expenditure category in Attachment A with further explanation in note (e) and in Attachment B. As previously discussed, and as indicated by its placement in Attachment B, the ALS salary and wage contingency seems more appropriate as one of the reserves for unanticipated inflation than an annual contingency expenditure and could be treated as such under the current levy wording except for its placement as an expenditure in Attachment A.

The millage reduction reserve is to be used to reduce the levy beginning in 2009 (per section 13). In order to comply with this requirement, EMS staff would need final financial results prior to the 2009 tax levy, which is not practically possible. Note (o) to Attachment A states that the calculations begin in 2010, which is possible, but in conflict with the levy text.

During our review of the levy language and the various attachments, we noted that certain statements were made to the notes to the financial plan which were not based upon any specified levy language. For example, the following statement is frequently used: *these funds can be used to replenish other reserves.* No such statement is made in the levy wording.

While regional services and strategic services are listed in the financial plan, Attachment A, and the amounts increase each year from 2009 to 2013, there is no mention of these items as either a note in Attachment A, in the levy itself, or in the description of inflators. The levy discusses ALS and BLS services and provides for inflation measures to increase each, but is silent as to regional or strategic services. As such, the regional service escalators used in the revised financial plan may not be authorized and, therefore, expenditure of these service costs may be limited to the amounts contained in Attachment A.

In planning for the 2013 levy, we recommend that more care be exercised in making sure all levy-related documents are internally consistent and that the provisions are clear. If it is deemed desirable to reference a financial plan in the levy wording and include financial projections as attachments, a higher level of summary data and notes that conform to the levy text is in order. We further suggest that sufficient time be allowed for testing the financial plan to see how it operates in practice by interested parties, such as EMS Division or council staff, prior to its presentation to the council.

Appendix E: ALS Providers' Internal Control and Contract Compliance-Additional Information

King County EMS Division Overall Contract Management

The issues related to the financial plan and model are discussed in the EMS Levy Financial Plan section of this report and are not repeated herein. This discussion relates to issues identified during our review of ALS contracts and ALS provider on-site visits. Recommendations are identified for overall EMS program management and for the individual ALS providers as appropriate.

- We noted that King County was late on two payments of contract billings by one ALS provider during 2008. King County should determine the reasons for the payment delays and make any process changes needed to assure that payments are made within 45 days of invoice receipt.

- We noted that the billing form had been modified by King County so that it was different than the form provided in Exhibit C to the contract. The contract language should be revised to explicitly provide for minor administrative matters to be modified by a contract manager, such as changes to a required billing form or required financial reports.

- The ALS contract does not specify the measurement focus or basis of accounting to use for billing purposes. The contract Section IV Internal Control and Accounting System requires the ALS providers to establish and maintain a system of accounting and internal control which complies with applicable generally accepted accounting principles and governmental accounting and financial reporting standards. This section appears to prohibit cash basis entities such as one ALS provider from using a cash basis for its internal control system because the cash basis is not in accordance with generally accepted accounting principles and is not in conformity with governmental accounting and financial reporting standards as promulgated by the Governmental Accounting Standard Board.

We believe the contract monitoring would improve if the contract Section III Compensation and Method of Payment were modified to require that ALS providers prepare billings on the same basis as used for the entity's financial reporting requirements. In addition, if the Section IV Internal Control and Accounting System explicitly allowed for the cash basis of accounting if that basis is used for the entity's financial reporting requirements, then the financial reporting requirements and the billing requirements could be internally consistent. This recommendation links to a recommendation for an ALS provider to accrue for its last ½ month payroll in that month's billing to avoid year-end cutoff issues.

- Section XVII Equipment Purchase, Maintenance, and Ownership of the contract (item D.) requires King County to provide tags so that the contractor can mark the property as owned by the county. All ALS providers (except for KCM1) have used their own city vehicle ID number since the county has not yet provided the tags. The county should decide whether they will enforce this contract provision, and if so, provide the tags. Otherwise, the contract should be changed to allow for the city or district to use its own tagging procedures to control equipment items.

- There is some degree of confusion and uncertainty regarding how unanticipated costs should be handled under the contract. Examples include: the results of labor contract arbitration proceedings which require a retroactive wage adjustment from services rendered in a prior contract year, increased insurance cost allocations from a self-insured internal service fund resulting from large unanticipated claims, unrecorded liabilities such as unfunded other post employment benefits, etc.

- While the most recent Comprehensive Annual Financial Report from the Washington State Department of Retirement Systems notes that the actuarial value of assets for LEOFF 2 exceed the actuarial accrued liability (on the entry age method) by $734 million for a funded ratio of 120 percent, the county has a unique situation that resulted from a 2005 change in the state law allowing ALS staff in PERS to convert to LEOFF II that results in an estimated unfunded liability from the LEOFF II conversions of approximately $4 million to be paid in 2012.

- The ALS providers all indicated that the short timeframe requested by King County for its final billing (around January 10, 2009) was too short for them to close their books and provide for a full and accurate billing. EMS Division management indicated that only an estimate was requested, and that there was some confusion about the county's request. We recommend that this requirement be clarified and specifically allow ALS providers to submit a final billing by January 30 following the year-end close. This suggestion will significantly resolve the cutoff issues noted as a result of our billing review procedures.

During our review of the ALS contracts and internal controls, we also identified contract or internal control issues specific to individual ALS providers, and provided additional recommendations to the ALS providers that are presented below. The EMS Division assumed responsibility for collaborating with the ALS providers on implementing the recommendations that are deemed feasible and relevant to the individual ALS providers.

- Overhead costs are based on an outdated study which was not followed in charging the program for overhead costs. The amount was reduced so ALS contract managers may be managing the cost properly, but there is not a way to determine whether the overhead cost allocations are reasonable. We understand that the ALS provider is in the process of updating its indirect cost study, with results expected by early 2010.

- The ALS provider should accrue its last half of month payroll in the billings related to the month in which services were provided instead of billing in the following month, when the payroll is paid. However, the ALS provider only accrues its payroll at the end of the year (December) and does not accrue for any other month during the year. As such, we do not want to recommend that the ALS provider use a different billing basis than that used for its monthly financial reporting. However, this situation still causes a contract year-end cutoff issue that should be addressed. A compromise recommendation is to back out the last ½ of December's payroll from the January billing with a note under the comments section that January only includes ½ of the payroll costs due to the way payroll is posted in the monthly financial reports, and that the following

December's billing will accrue for the last ½ of December's payroll. This will result in a December billing that contains 1 and ½ months of payroll, but will provide for a clean cutoff for the contract year-end.

- Purchase Orders with an "OJ" designation are not encumbered in their system. As such, there is a lack of automated system controls, and the manual controls failed in two cases. The ALS provider should establish a procedure whereby non-encumbering POs (e.g., "OJ" designated POs) that use manual tracking include the balance remaining on the purchase requisition form included as part of the invoice voucher package. The balance remaining should be reviewed by a person prior to processing the payment to assure that PO limits are not exceeded. Alternatively, the ALS provider could consider eliminating non-encumbering POs from its processes, but this may cause some unintentional adverse operational issues that should be seriously considered.

- This ALS provider does not include all of its costs in its billing because of budget limitations. Examples include employee benefit costs and dispatch fees. While the ALS provider should continue its practice of not billing more than allowed under the contract, it should communicate its actual costs either in the billing process or another communication so that individuals in EMS Division with overall EMS levy program responsibilities are aware of the ALS provider's actual cost of services.

- The ALS provider should determine its overhead costs associated with the ALS program in a more rigorous manner, based on actual data captured during the contract year. The overhead charges to the program should be based on actual costs using a reasonable allocation methodology instead of the current practice of billing for 1/12th of the budget amount each month.

- The ALS provider's billing form for EMS cost reimbursement does not agree to the budget contained in its contract. Furthermore, the ALS provider's budget format is different than the other ALS providers' contract budgets. Most notably there is no section for overhead charges in the contract budget, which required the ALS provider to include sizable overhead charges in its "Misc." budget line item. The form attached to the King County billing does have a section for the overhead charges, but that section also includes direct billed charges from various internal service funds maintained by the city. In addition, other internal service fund charges are contained in the "Other Costs" section of the billing form. The contract budget has a separate section for employee benefits, but these amounts are not separately reported in the billing form, as they are lumped in with salaries line items.

- We recommend that the ALS provider establish control over the integrity of the original budget, and changes in line items be made either by a formal amendment or through an administrative memorandum of understanding with EMS Division staff. Furthermore, we recommend that the ALS provider contract budget conform to the format used by other ALS service providers. We also suggest that the ALS provider and King County consider a budget and billing format revision to clearly segregate the costs paid to external parties, internal service fund charges and general overhead allocations.

- Due to the early request (January 10th) for a final billing from King County, the ALS provider estimated its final costs associated with the final December payroll and other items. In connection with the King County recommendation to allow for more time for the final year-end bill, the provider should be able to close its books, and bill the actual amounts reported in its financial system.

- The ALS provider assigns percentages to all staff associated with the ALS program at the beginning of each year. The percentage assignment remains unchanged during the year. The ALS provider has the capability to run Telestaff reports to determine the actual time spent on ALS versus fire suppression or other activities and does so in preparing for its next year's budget. We recommend that the ALS provider perform this analysis of actual time prior to its final bill each year so that the cost charged can be based on actual time spent on the ALS program instead of an estimated time split.

- Not all staff is included in the Telestaff reporting system. As such, there is no true-up mechanism for the management and administrative support staff who allocate their time between functions based on a pre-determined estimate. We recommend that the ALS provider consider using a test timesheet process whereby actual time spent on various ALS or non-ALS activities be captured periodically throughout the year so that the results can be used to adjust the pre-established allocation estimates to amounts based on actual time capturing data.

- The ALS provider should perform and maintain documentation of a reference between the financial system reports and the billing form so that each line item of cost billed to King County can be traced back to the financial system.

- The ALS provider should document reasons for adjustment to the City's allocation of central services to ALS. We also recommend that ALS staff inquire to internal service fund management to determine whether the internal service fund billings are in excess of the actual costs incurred by that internal service fund to provide the services received by ALS. This inquiry should be done at least annually.

- The ALS provider should consider charging Mobile Data Computer access charges based upon the actual ALS numbers included in the Sprint invoice.

- The ALS staff should talk to internal service fund management to determine whether the internal service fund billings are in excess of the actual costs incurred by that internal service fund to provide the services received by ALS. This inquiry should be done at least annually.

- The ALS provider does not provide for a segregation of ALS costs from other Fire District functions as the other ALS providers do. While a better segregation to isolate ALS costs is desirable, the implementation of such a recommendation may not be feasible. Therefore, we recommend that the ALS provider at least consider ways to segregate ALS cost by using either a modified chart of accounts and/or a separate ALS cash account within the county's ARMS system.

- The ALS provider should produce a more rigorous and well-documented process for allocating the ALS portion of shared costs such as the Fire Chief and administrative staff salaries.

- The ALS provider should consider a periodic review of payroll, with special attention to per diem employees to verify that the rates paid are proper.

- The ALS provider should perform a year end cutoff review of all amounts included in accounts payable to determine that a proper year-end cutoff has been achieved.

- The ALS provider should perform and document a crosswalk between its financial system reports and its billings to assure each line item is supported by the financial system and that the billing is complete with all ALS costs included in the billing.

Appendix F: Scope and Methodology-Additional Information

Introduction

This project focuses on how well the King County EMS Division and its ALS service provider partners are managing the financial aspects of the EMS program and whether the financial plan provides for dependable funding and financial stewardship. The work plan is divided into four phases: 1) planning; 2) financial, contract compliance and internal control reviews; 3) financial model assessment and fund balance policies; and 4) the reporting phase. The planning phase resulted in a project work plan, approved by KCAO. Most of the work effort is devoted to financial and internal control work (phase 2) and financial plan model review (phase 3). The final phase is synthesizing the results of the previous phases into a usable report and presenting them to interested parties.

Project Work Plan Summary

The project work plan is linked to project objectives. It is also divided into four major phases with multiple tasks identified in each phase. The task groupings and their purpose are as follows:

Phase 1: Audit Planning and Risk Assessment. The purpose of this grouping is to obtain sufficient information to develop the work plan.

Phase 2: Audit of Historical Financial Information, Contract Compliance and Internal Controls. The ALS contract compliance and internal control work focused on transactions and activities during the year ended December 31, 2008. We obtained financial statements for the program at the county control level and billing information from each of the five ALS contract EMS providers. Prior to performing tests of transactions on control attributes, we obtained documentation of the internal controls in each area or developed such internal control documentation based on interviews with staff that conduct the control procedures. Once we were assured that the internal control design was appropriately documented, we conducted our tests of the sample items selected to determine whether the designed controls are operating effectively. We designed our specific tests for dual purposes, to test the operation of control activities and substantively validate reported amounts and ALS contract compliance.

Phase 3: Assess ALS and BLS Financial Models and Use of Reserved and Unreserved Fund Balances. Similar to our work in phase 2, we obtained or developed documentation of the internal controls surrounding the development of the financial plan. Such controls would include whether base amounts are established on reliable historical financial data and whether assumptions and inflating factors are based on historical trends adjusted for appropriate judgments regarding future cost behaviors and are obtained from appropriate sources.

We obtained an understanding of the policies, procedures and control structure surrounding the use of reserved and unreserved fund balances. We assessed the appropriateness of the design of such internal controls and considered the adequacy of such policies and procedures. For any transactions during 2008 that caused the use of fund balances, we obtained supporting documentation to determine whether approval controls were followed.

Phase 4: Final Report, Exit Conferences and Council Briefings. The purpose of this grouping is to analyze and synthesize the results of the previous three work task groupings. Conclusions and recommendations are developed for inclusion in the draft report. Included in this phase is a presentation of the final results after KCAO accepts them.

Details of Financial, Compliance and Internal Control Review Tasks

Since the majority of our effort was devoted to the Phase 2 audit of historical financial information, contract compliance and internal controls and the Phase 3 review of the financial models, we have provided additional detail as to how we approached these tasks. A key planning decision is the size of the control attribute and substantive compliance sample to be reviewed. We were required to conduct this portion of the project using a valid sampling plan. The main source of evidence regarding the ALS providers' internal controls was the review of the initial accounting system documentation and prior audits conducted during the planning phase and the documentation of specific control activities in the cash disbursements and payroll processes obtained in connection with our site visits. Transaction testing for control attributes is designed to provide evidence that key controls are functioning in accordance with the documentation. As such, we designed the sampling plan for the ALS costs included in the EMS levy as a whole and not for each ALS provider. During our planning phase we determined that each ALS provider used a unique accounting system, but that there was a high degree of commonly used control procedures. As a result, we determined an appropriate sample size for the EMS program as a whole and then allocated the sample among the various ALS providers using a weighted average of contract values and transaction volumes. The results of the sample allocation were further refined for a judgmental risk assessment and to assure that each ALS provider was allocated at least 10 items within the sample.

To determine the appropriate sample size we used the following commonly used formula.

Sample Size = n / [1 + (n/population)] in which n = Z * Z [P (1-P)/ (D*D)]

P = True proportion of factor in the population, or the expected frequency value
D = Maximum difference between the sample mean and the population mean, or expected frequency value minus the worst acceptable value
Z = Area under normal curve corresponding to the desired confidence level

In order to use this formula, certain information (such as size of population) and judgments (such as expected rate of compliance) are required. We obtained the population of disbursements, payroll, billings and equipment inventory items for the year ended December 31, 2008.

We used the following information and judgments for disbursement and payroll selection in applying the formula.

- P=95% (this is the expected compliance with the attributes, discussed in a separate section below, in the population).

- D=5% (we have determined that the "tolerable rate of error" is 10%, therefore the "precision" is the difference between the 95% expected compliance rate and the 90% tolerable error).
- Z=1.96 (this corresponds to the 95% confidence level)
- Disbursement Population = 4150 (total of amounts provided by ALS providers)

The result of calculating for "n" is:

n= 1.96 x 1.96 [(.95 x 1-.95) / (.05 x.05)]
n= 72.99

Solving for sample size (S) is:

S=72.99/ [1+ (72.99/4150)]
S= 71.73 or 72

In summary, a sample size of 72 will provide for a statement that we are 95% confident that the compliance rate of the population is between 90% and 100% (precision level of 5% around the expected compliance rate of 95%).

Using this same formula for the population of payroll transactions of 4,700, which is also the total of amounts provided by ALS providers, the result is also a sample size of 72. The randomly selected samples were provided to the ALS providers prior to our site visits.

We tested sample selections for the following control attributes:

Cash Disbursements:

a) Payment is supported by an invoice or other supporting documentation. Evidence that invoice is approved exists.

b) Purchase is supported by an approved Purchase Order, Purchase Requisition or other documentation that purchase was approved.

c) Goods or Services appear necessary for the provision of ALS services (as opposed to fire suppression, etc.)

d) For purchases of materials and goods, receiving report is initialed by receiver and supports the invoices (avoids payment for goods not received.) We considered a signature and comment "received by" or "delivered" on invoice the same as a receiving report

e) The G/L account coding written on invoice appears proper, and the item is posted to the correct fund or cost center.

f) Amount agrees to posting in financial system.

Since not all attributes are applicable for all transactions (for example, utility or phone services do not require the use of a Purchase Order), the ending sample for certain attributes was less than the number of transactions tested. Similarly, certain transactions may have multiple invoices or entries into the General Ledger which resulted in an ending sample of more than the number of transactions selected. The final count and results for our cash disbursements testing is as follows:

Attributes	(a)	(b)	(c)	(d)	(e)	(f)
Total Items Tested	73	51	77	52	76	68
Exceptions		2			2	
Rate of Error		3.92%			2.63%	

The rate of error for many attributes is within our planned precision level of 5%. For samples of 50 or more we are 95% confident that the precision level is within 6.5% of an expected compliance level of 94%. For samples of 60 or more we are 95% confident that the precision level is within 6.0% of an expected compliance level of 94%.

Payroll:

a) Payment is for actual time worked or approved leave, supported by an approved timesheet, exception report, leave approval form or other supporting documentation.

b) Evidence that payroll register was reviewed and approved exists.

c) Time was incurred for the provision of ALS services (as opposed to fire suppression, etc.).

d) Hourly rate of salary is in accordance with a contract or an approval from the Human Resources function.

e) The G/L account coding for payroll charges appears proper and item is posted to the correct fund or cost center.

f) Amount agrees to posting in financial system, or total payroll posting agrees to financial system posting.

Since not all attributes are applicable for all transactions (for example, most ALS providers review and approve timekeeping reports and not a payroll register), the ending sample for certain attributes was less than the number of transactions tested. The final count and results for our cash disbursements testing is as follows:

Attributes	(a)	(b)	(c)	(d)	(e)	(f)
Total Items Tested	67	11	68	68	68	66
Exceptions				4		
Rate of Error				5.88%		

The four exceptions noted for attribute (d) are considered an isolated incident as all four instances related to one per diem worker at one ALS provider. As such the rate of error can be considered as being within our planned precision level of 5%. For samples of 60 or more we are 95% confident that the precision level is within 6.0% of an expected compliance level of 94%.

The samples for billings and equipment management were judgmentally selected. Since the population of billings is 12 for monthly billings and 4 for quarterly billings, a selection of one billing to test for quarterly billers and two billings for monthly billers provides sufficient evidence as to the operations of the billing controls. Similarly, since ALS providers (excluding KCM1) maintain primary service units (apparatus) ranging from one to 8 units, a judgmental sample of one unit to test provides sufficient evidence as to the operations of the equipment management controls.

Site Visits

We obtained the list of ALS service providers from KCAO and scheduled site visits, during which we conducted our testing procedures discussed above. In addition to our detailed test, we observed the equipment and facilities, discussed procedures with staff and discussed the EMS levy with Fire Department or District management.

Levy Financial Plan and Model and Financial Policies Review

There are several different aspects of the levy financial plan and model that our work plan was designed to address. The objectives for the financial plan review are contained in King County Ordinance 15862 as follows:

> *SECTION 1.* ***EMS financial audit.*** *The county auditor shall conduct an annual audit of the county programs funded by this levy, comparing actual revenues, expenditures and reserves to those amounts specifically identified in the financial plan adopted by the council each year during the budget process including the roles of: inflation; population growth; call volume; labor agreements and new labor costs; fuel expenses; vehicle maintenance and replacement; and the regional subsidy needed for local basic life safety program in support of emergency medical services ("EMS").*

Ordinance 15861 contains the levy wording presented to voters on November 6, 2007 and Attachments A, B, and C, which are referred to in the levy. This ordinance and levy contain several sections regarding financial policies and requirements for the financial management of the levy proceeds. In order to plan this engagement and assess risks related to the financial plan, we reviewed the financial plan in relation to the levy requirements. Our initial assessment is that the financial plan is designed to demonstrate compliance with the levy and the related financial policies. As such, we have assessed the risk that the plan is not appropriately designed as low. However, we have identified a few areas that require interpretation of ordinance language that were pursued in this portion of our engagement.

In addition to comparing the financial plan to actual financial results for the year ended December 31, 2008, we compared cost escalation factors used to project future costs to historical trends. The cost escalation factors subject to our review are contained in the Ordinance 15861 attachments and include the Consumer Price Index, benefit and pension costs, pharmaceutical costs and diesel fuel costs. We also reviewed the interrelationship of these escalation factors to the reserve requirements contained in the levy and conducted certain sensitivity analyses.

The sensitivity analysis focused on the main financial drivers that have the most impact on the projections of future costs. The assumptions regarding the changes in assessed property valuation and ALS salary and wages have the most material impact on the projection of future levy revenue and costs. For each major assumption we calculated the effect of percentage changes on the EMS levy financial plan and discussed the results in relation to the available fund balance. The presentation of the results indicates what percentage change in assessed property valuation or ALS salary and wages (or various combinations of both) could be covered by existing reserves.

Finally, we reviewed how the financial policies are followed in practice and identified areas that would benefit from clarification or changes to allow for improved program operations.

EXECUTIVE RESPONSE

King County

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September 3, 2009

Cheryle A. Broom
County Auditor, King County Council
Room 1033
C O U R T H O U S E

Dear Ms. Broom:

Thank you for your August 20th letter and the opportunity to review and comment on the proposed final report of the Emergency Medical Services Levy Financial Review for 2008. This is the first of a series of EMS financial reviews which, by King County Council ordinance, will be conducted on the 2008-2013 Medic One/EMS levy.

There were two stated objectives for this initial audit. First, the review assessed whether the Advanced Life Support (ALS or paramedic) and Basic Life Support (BLS) financial models were accurate, complete, and based on complete and reasonable criteria in projecting yearly budgeted costs, and whether the information used to update the financial models on an annual basis were adequate. There was also an interest in assessing the impact of the current economic downturn on funding levels and to identify opportunities for millage reduction over the duration of the levy. The second major audit objective was, for ALS providers only, to review compliance with the 2008 ALS service contracts in terms of internal controls and accounting, equipment purchases, maintenance, and ownership. The contract review included both a review of the King County EMS Division's records and an evaluation of the effectiveness of existing contracts with five of the six paramedic providers.

I was pleased to note in the report that both objectives of the audit achieved an overall favorable review, and the conclusions, findings, and recommendations of the audit are also favorable and supportive. The audit review demonstrates overall that the financial models developed for this levy are adequate, contain appropriate economic assumptions, and that EMS levy funds are being appropriately managed by Public Health-Seattle & King County (PHSKC), the EMS Division, and paramedic providers consistent with the ordinances passed by the King County Council and approved in November of 2007 by King County voters.

The 2008 EMS Levy Financial Review also contains some specific recommendations for both the financial plan and internal controls and contracts (see Attachment A). We concur with six of the seven recommendations, and partially concur with the recommendation regarding the financial policies. These recommendations all are thoughtful, helpful, and once implemented will improve on the infrastructure that has been built to manage the EMS levy fund. The recommendations identify issues where it will be beneficial to gather additional information, and modify existing or add new policies that provide further guidance for financial matters and provider contracts.

Specifically, in response to the recommendations in the financial review, we plan to:

- Propose clarifications and reconciliations of the EMS levy ordinance (#15861), the financial policy ordinance (#15862), and the Medic One/EMS 2008-2013 Strategic Plan ordinance (#15740).
- Improve definitions of "normal" costs with providers, define what "full funding" means for ALS providers and ensure that there is clear, consistent understanding between all parties on allowable costs, including appropriate consultation with our legal counsel as necessary.
- Separate ongoing, allowable, annual allocation costs from those that are unusual or infrequent, and propose specific reserves for the infrequent costs.
- Continue to improve the consistent reporting by ALS providers on the understanding of actual service costs.
- Improve clarity of contract requirements in terms of management of equipment, accounting period cutoff controls, annual allocations and overhead charges.
- Work with the King County Council to revise reserve and contingency policies in order to address issues with the unanticipated economic conditions and establish those policies as recommended in the financial review.

The EMS Financial Review also clearly identifies and addresses the concerns with current economic conditions and the need to modify the financial plan in order to address these challenges. Briefly, the severe economic downturn is having an unprecedented negative effect on revenues for the regional EMS levy. Office of Management and Budget forecasts projected countywide property valuation decreases for 2009, and is projected to result in a corresponding reduction in property tax revenues for 2010 and the remaining years of the EMS levy. Due to the foresight of both regional EMS stakeholders and the County Council in planning for reserves and contingencies during the levy period, reprogramming existing EMS reserves appears to mitigate the impact of reduced revenues without reducing critical services and programs for 2010. However, the projections for future years beyond 2010 may require a new strategy. I plan to submit an ordinance on this issue for the King County Council's consideration.

Attachment A identifies the high-level major timelines and products connected with our response to the recommendations. Public Health, the EMS Division, and EMS stakeholders will begin work on these recommendations immediately. The EMS Division is also planning to update the Medic One/EMS 2008-2013 Strategic Plan to reflect the financial review recommendations.

The EMS Levy Financial Reviews are currently scheduled annually, by King County Ordinance. Based on the positive findings included in this year's review, and our proposal to update the Medic One/EMS Strategic Plan in order to both reconcile some of the financial policies, and clarify others, I will recommend to the King County Council that the EMS levy financial reviews be completed every two years, rather than every year. The Annual EMS Report to the King County Council as well as the annual budget process should permit excellent oversight and continuity in alternative years when a formal financial review is not done.

I appreciate the high level of cooperation and support that obviously occurred between the King County Auditor's Office, Public Health and EMS Division management and staff, and the paramedic providers. If you have any questions regarding this response, please contact Thomas Hearne, EMS Division Director, at 206-263-8579.

Sincerely,

Pam Bissonnette for

Kurt Triplett
King County Executive

Enclosures

cc: Brian Estes, Senior Principal Management Auditor, King County Council
Susan Baugh, Senior Principal Management Auditor, King County Council
Noel Treat, Chief of Staff, King County Executive Office (KCEO)
Beth Goldberg, Acting Budget Director, Office of Management and Budget (OMB)
Caroline McShane, Deputy Director, Finance and Business Operations Division
David Fleming, M.D., Director and Health Officer, Public Health – Seattle & King County (PHSKC)
Thomas Hearne, Division Director, EMS Division, PHSKC

ATTACHMENT A

Recommendations on EMS Levy Financial Plan	Agency Position	Schedule for Implementation	Comments
EMS Levy Financial Plan Recommendations			
1. Develop financial policies that provide further guidance concerning what ALS costs should be funded by the EMS levy. Such policies should explicitly state the County Council's intentions regarding whether all ALS costs should be fully funded, and if so, define what "full funding" means. The definition of full funding should also be subjected to a legal review of EMS costs allowable under state law, specifically RCW 84.52.069(5).	Partially Concur	April 2010	Develop guidelines with EMS providers and review by EMS Advisory Committee (EMSAC); consult with attorneys as necessary
2. Obtain additional data on actual service costs that ALS providers incurred but deducted from billing data due to lack of budget, and costs incurred by ALS providers that are not yet recognized in the budget in defining full funding. The definition should provide sufficient detail to determine whether or not general government overhead and costs of support activities provided by other government departments are allowable, as well as the allowable activities under the Regional Support Services and Strategic Initiative categories. Costs deemed to be allowable to support normal, ongoing operations that are not addressed in the current levy period should be considered in developing the financial plan and standard unit cost model for the next levy period.	Concur	a. First report March 2010 b. Progress report March 2010; report 2011 to inform next levy period	a. Collect data with annual report to EMS Advisory Committee (coordinated with year-end accounting) b. Progress report to EMSAC to inform next levy period c. Include, as appropriate, in Strategic Plan Update
3. Identify and account for unusual or infrequent allowable costs. Costs of substantial value should be accumulated and covered by reserves established for their payment. Requests to access the reserves should be included in the next supplemental or annual budget submitted for Council approval and would be controlled similarly to the existing reserves for unanticipated inflation to ensure continued accountability in spending the levy funds.	Concur	May 2010; 2011 Budget Process	Incorporate into proposed Strategic Plan Update (Recommendation #4) and 2011 Budget Process
4. Enhance the clarity and consistency of levy financial policies and their relationship with supporting attachments to address current practices, omissions or apparent inconsistencies to ensure the EMS levy funds are managed in accordance with the intent of the County Council. Such revised policies should focus on identifying alternate uses of the existing restricted reserve and fund balances to address the unanticipated economic conditions and long-term impacts of projected or actual deflation during the six-year levy.	Concur	a. 2010 Executive budget submittal; b. May 2010 c. 2011 budget process	a. 2010 Mitigation Plan submitted with 2010 budget submittal; b. Propose Strategic Plan update c. 2011 Mitigation Plan

Recommendations on EMS Levy Financial Plan	Agency Position	Schedule for Implementation	Comments
EMS Levy Internal Control and Compliance Recommendations			
1. Actual ALS services costs should be communicated to EMS Division management to determine whether the cost model is functioning appropriately. Maintenance of the standard unit cost methodology for allocating levy funds to ALS providers should be continued, but based on improved definitions of "normal" costs. Such information would include known costs, actual service costs deducted from the billing data by ALS providers due to lack of budget, and costs incurred by ALS providers that are not yet recognized in the budget. Using the policy definitions from implementing the first two EMS financial plan recommendations above, these costs should be screened as to their allowability. Unanticipated costs should be provided for in reserves and designations of fund balance.	Concur	May 2010	Begin Fall 2009 and screen after guidelines are developed (in #1 above); Unanticipated costs addressed in #3 above
2. The EMS Division and ALS providers should improve financial oversight of the EMS levy program through better clarity of contract requirements, and the development of procedures and definitions related to accounting period cutoff control, allocations and overhead charges, and selected changes to individual ALS provider accounting and internal control processes.	Concur	October 2009 – May 2010	Implement in prioritized steps
3. The EMS Division should explore the feasibility of implementing the recommendations contained in Appendix E. with each of the appropriate ALS providers to strengthen internal controls, ensure full reporting of all costs, and promote transparency and accountability in the use of EMS levy funding.	Concur	April 2010	Some already implemented; remainder to be implemented in prioritized steps

REPORTS BY THE KING COUNTY AUDITOR'S OFFICE

2009 Emergency Medical Services Levy Financial Review (C)
Performance Audit of Transit (P)
Summary Report
Technical Report A: Financial & Capital Planning
Technical Report B: Service Development
Technical Report C: Staffing
Technical Report D: Paratransit
Technical Report E: Vehicle Maintenance
Technical Report F: Ridership Data & Emergency Communication
Accountable Business Transformation Program Oversight Reports (O)
Data Center Relocation Project Oversight Reports (O)
Harborview Ninth & Jefferson Building Project Oversight Reports (O)
Brightwater Project Oversight Reports (O)

2008 Compliance Audit Historic Preservation Funding (F)
Financial Audit Environmental Health Services (F)
Alternative Capital Project Delivery Methods Study (S)
Oversight Monitoring Consultant Review of the Brightwater Cost Update, 2008 Trend Report (O)
Brightwater Project Quarterly Oversight Reports (O)
Harborview Ninth and Jefferson Building Project Oversight Reports (O)
Follow-up Review of 2005 and 2006 Brightwater Project Performance Audits (P)
Due Diligence Report - Cost Benefit Analysis: Accountable Business Transformation (ABT) Program (S)
Performance Audit of Code Enforcement (P)

2007 Jail Health Services Pharmacy Operations and Medication Administration Performance Audit (P)
Internal Control Self-Assessment Audit Survey (S)
County Vehicle Replacement Performance Audit (P)
Report on King County 2006 and 2007 Concurrency Modeling Review (C)
Facilities Management Division Capital Programming and Planning (P)

2006 Follow-up on Implementation of Recommendations from 2004 Performance Audit of the Roads Services Division Capital Planning (S)
Auditor's Summary Report, Oversight of the Accountable Business Transformation (ABT) Program (S)
Auditor Review of Feasibility Analysis of the Potential for Consolidation of Court Administration Functions (S)
Review of King County's Human Services Contracting Practices (P)
New Construction Assessments (P)
Report on King County Concurrency Modeling Review (C)
Civil Division King County Prosecuting Attorney's Office (P)
Management of Brightwater Treatment Plant Engineering Services Contract Amendments (P)
Jail Overtime (P)
Follow up on Economic Analysis of Capital Projects (S)

2005 2003 Audit Findings of Washington State Auditor and Deloitte and Touche (S)
King County Auditor's Office Review of Quantifiable Business Case Projects (S)
King County Procurement Practices for Brightwater Professional Design Engineering Services (P)
Records Storage Follow-up Review (S)
King County Workers' Compensation Program (P)
Transit Capital Planning and Management (P)
King County Sheriff's Office: Phase 2 (P)
Elections Operations Management Audit (M)
Follow-up to 2004 Workers' Compensation Financial Audit (S)
2004 Audit Findings of the Washington State Auditor and Deloitte and Touche (S)
DDES Performance Monitoring (S)
Auditor's Summary Report, Implementation of the ISP/OMP (Year-end 2005) (S)

2004 Washington State Auditor's Office 2002 Audit Findings (S)
Follow-up Review: 2002 Sheriff's Communications Center (S)
Dept. of Development & Environmental Services Permitting Best Practices Review (S)
City-County Records Storage Operations Partnering Opportunities (joint study with Office of Seattle City Auditor)
I-Net Performance Measurement Follow-up Review (S)
Follow-up: Pacific Hospital Preservation and Development Authority Interlocal Agreement (S)
Performance Measurement Program (C)
Jail Operational Master Plan (OMP) Oversight - Quarterly Reports (S)
Roads Services Division Capital Planning (P)
Dept. of Development & Environmental Services Workload and Staffing (P)
Workers' Compensation Program (F)
King County Sheriff's Office (P)
Follow-up: Wastewater Treatment Division Capital Planning (S)

2003 Transit Pass Employee Benefit Tax Issue (S)
Follow-up Review - Performance Audit of Residential Assessments (S)
Take Home Vehicle Taxability Issue (S)
City of Seattle/King County Joint Work Plan for Partnering Opportunities (joint study with Office of Seattle City Auditor)
Follow-up Review on Financial-Related Audit of Information and Telecommunications Services Infrastructure Operating and Maintenance Costs (S)
Adult Detention Jail Costs Follow-up Study (S)
Groundwater Protection Services Inventory Review (S)
Review of Environmental Health Services Fee Structure Report (S)
Follow-up Review: Facilities Management Fund (S)
Wastewater Treatment Division Capital Planning (P)
King County Health Benefits (S)

2002 Residential Property Assessments (P)
King County Sheriff's Communications Center (P)
Facilities Management Fund (F)
I-Net Performance Measures (C)
DDES Billing Practices (S)
District Court Revenues (S)
King County Jails (S)

2001 2000 Body of Work Review Documents (S)
Environmental Impact Statement Consultant Study (S)
King County Copier Contract (S)
Follow-up to Management Audit of Scale Operator Injury Claims (S)
Take-Home Vehicle Policies and Practices (M)
Vanpool Replacement and Surplus Practices (M)
Pacific Medical Center Interlocal Agreement (S)
Grading Enforcement at Palmer Junction Gravel Pit (P)
Institutional Network (I-Net) Project (F)
Current Expense Fund Transfers (S)
Financial Systems Replacement Program (C)
Limited Review of the County's Capital Planning and Leasing Process (S)
Washington State Auditor's Office 2000 Audit Findings (S)
Health Benefits Audit Survey (S)

ALTERNATIVE FORMATS AVAILABLE UPON REQUEST
CONTACT 206-296-1655 or TTY 296-1024

REPORTS BY THE KING COUNTY AUDITOR'S OFFICE

2000 Follow-up: Management/Financial Audit of Information and Telecommunications Services Infrastructure Operating and Maintenance (S)
Summary of Community Concerns – Palmer Pit (S)
Audit Recommendation Implementation (S)
Follow-up: State Auditor's Office 1998 Finding Regarding Control Over Payroll in King County Park System (S)
Sheriff's Office Overtime (M)
Office of Human Resources Management Hiring Practices (M)
Columbia Public Interest Policy Institute (M)
King County Permit Processes and Practices (M)
School Impact Fees (S)
Sheriff's Office FTE and Budget Changes, 1994 – 2000 (S)
Park System Take Home Vehicle Practices and Logo Design Issues (S)
KCSO Audit Compliance: Information Management (S)
Review of Construction and Facilities Management Temporary Employees – Logan-Knox Settlement Agreement Implementation (S)
Scale Operator Injury Claims (M)
Parks Department Span of Control (S)
1999 Body of Work Review Data – Use of 200 Hour Threshold Report (S)
Elections Management System (S)

1999 Information Technology Planning, Development, and Implementation Processes (M)
East Lake Sammamish Trail (S)
Bond Funded Capital Improvement Projects (F)
King County Traffic Volume Forecast Model (S)
Jail Overtime (S)
Transit Management (C)
Disposition of Firearms (S)
Metro Transit Vehicle Maintenance Operations (M)
Employee Benefits (C)
Risk Management (C)

1998 Automated Telephone Systems (S)
Interlocal Agreements & Public Agency Contracts (S)
Review of Selected Capital Project Funds (S)
Metro Tunnel Rail Installation Process (M)
Road Maintenance Contracts (F)
ITS Infrastructure Operating and Maintenance Costs (F)

1997 King County Methadone Treatment Programs (M)
Criminal Justice-Funded Department of Public Safety Staffing (S)
Permit Fee Waivers (M)
Animal Control Section Collection Practices and Interlocal Services (F)
King County Contract for Sobering Services (S)
Office of Civil Rights Enforcement Case Management (S)
Neighborhood Drainage Assistance Program (S)
Surface Water Management Program (S)
Motor Pool (S)
Information and Telecommunications Services (M)

1996 Dept. of Metropolitan Services West Point & Renton Wastewater Treatment Facilities (C)
1990 Code Enforcement Audit Follow-Up (M)
Dept. of Metropolitan Services Compensatory Time Policies, Procedures, and Practices (S)
King County Women's Program (M)
Cultural Programs (Hotel/Motel Tax Distribution) (F/M)
Investment Management (F)
King County Road Construction Fund and Capital Improvement Program (M)
Emerging Infectious Diseases and Laboratory Operations (M)
DUI Offender Program (M)
King County Real Property Acquisition Practices (M)
Seattle-King County Dept. of Public Health (SKCDPH) Immunization Program (M)

1995 Dept. of Metropolitan Services Temporary Contract Workers (M)
King County Purchasing Practices & Supply Contract Prices (M)
Sewage Facilities Capacity Charge (F)
Audit Recommendation Implementation (S)
Dept. of Metropolitan Services Professional Services Contract (M)
Human Services Dept. Monitoring of Contract Compliance (F)
Biomedical Waste Regulation Enforcement (S)
Customer Service Motion Survey (S)
County Fair Financial & Contract Management (F/M)
Supported Employment Program (M)

1994 Span of Control (S)
Community Diversion Program (M)
DDES Reduction-In-Force Process (S)
Cedar Hills Alcohol Treatment Facility (CHAT) Accounting Procedures and Staffing Levels (M)
DDES Fire Marshal's Office Fire Investigation Unit (S)
DDES Accounts Receivable (F)
Travel Expenses and Credit Card Use (M/F)
Services & Treatment Alternatives for Developmentally Disabled Offenders Incarcerated in the King County Correctional Facility (M)
Board of Appeals and Equalization (S)
Surface Water Management Non-Construction CIP Costs (S)
Tracking and Reporting on Lawsuits Involving King County (S)
Jail Overtime Study Follow-Up (S)

1993 DDES Assigned Vehicles (M)
Certificate of Occupancy Process (M)
Collection of Civil Penalties and Recovery of Abatement Costs (F)
DDES Field Inspection Function (M)
Police Overtime for Court Appearances (M)
Dept. of Youth Services Sex Offender Unit and Special Sex Offender Dispositional Alternative Program (M)
Office of Open Space Financial Administration (M/F)
Collection Enforcement Section (S)
Cellular Phones (S)
Surface Water Management Service Charges (F)
Acceptance of Special Waste at County Landfills (S)
Solid Waste Division Internal Controls for Handling and Storage of Parts, Fuel, and Other Operating Supplies (F)

1992 King County Office of Emergency Management (S)
King County Dept. of Stadium Administration Revenues (F)
Environmental Health Charges to Solid Waste (S)
Sierra PERMITS Automation System (M)
King County Office of Human Resource Management (M)
BALD Financial Guarantee Administration (M)
Northshore Youth and Family Services (F)
Dept. of Youth Services Drug & Alcohol Program (M)
Dept. Adult Detention & Youth Services Overtime (S)
SEPA Revenues and Accounts Receivable (F)
Methodology for Funding Legal Services for Non-Current Expense Fund Agencies (S)
Accounts Payable (F)
Solid Waste Equipment Replacement Practices (M)

1991 Carpentry Shop (F)
County Fuel Station Internal Controls (F)
County Agency Performance Monitoring Survey (S)
King County Elections Practices (M)
King County Purchasing Agency (M)
Farmlands and Open Space Preservation Program (M)
King County Detoxification Center (M)
Dept. of Public Safety Field Training Officer Program (S)

(C) Audit/Study conducted by consultants
(F) Financial Audit
(M) Management Audit
(P) Performance Audit
(S) Special Study
(O) Capital Projects Oversight

ALTERNATIVE FORMATS AVAILABLE UPON REQUEST
CONTACT 206-296-1655 or TTY 296-1024